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AMERICAN BANKER

150TH

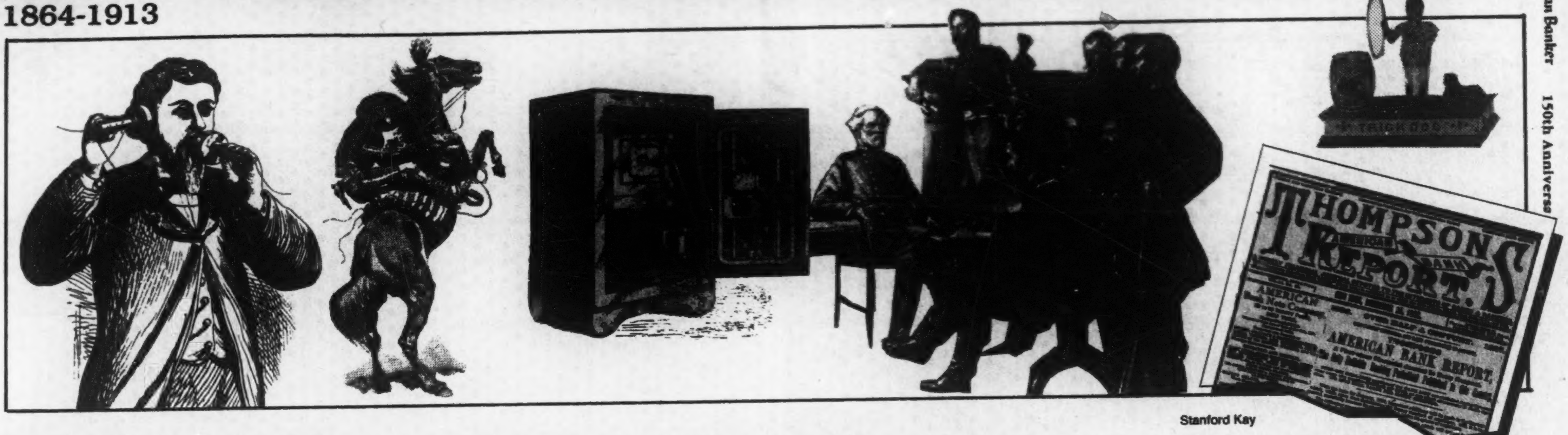
1836~1986

ANNIVERSARY

A Commemorative Edition

BANKING'S PAST, FINANCIAL SERVICES' FUTURE

1864-1913



Stanford Kay

Twixt Booms and Panics: Banking in the Gilded Age

Fifty years leading to Federal Reserve Act saw ballooning of US banking system and ills that made reform a must.

By Jeffrey Marshall

AT THE END OF 1913, when the Federal Reserve Act was signed into law, the United States was a burgeoning financial giant gradually weaning itself from its dependence on Europe. In the half-century since the surrender at Appomattox, the country had grown at a feverish pace, with the tide of immigration by the turn of the century helping to build urban ziggurats in cities like New York and Chicago.

The nation's banking system had grown with the country, though in a haphazard, often opportunistic way that led many to call for reform. The number of banks grew at a rate five times that of population in 1863-1913; farm towns, even if mere crossroads in a checkerboard of fields, sprouted banks like spring seedlings. In the small town of Meade, Kan., with a population of under 500, eight banks opened in 1886-87.

In 1865, the National Currency Act created a uniform national currency and formalized a system of chartering national banks. Under the rules, a group of five or more "distinguished" citizens could form an "association" for banking. The number of commercial banks leaped from 2,000 in 1865 to 20,000 by 1910, with 7,000 of those being national banks. The total hit 27,000 in 1913, more than twice the level of today. State-chartered banks far outnumbered national banks, but the number of private banks — formed chiefly to provide freighting and trading facilities for America's growing merchant class — had begun dropping sharply, falling from 5,200 in 1900 to 1,500 by 1910.

State-chartered banks proliferated in the late 1800s when state laws, usually requiring less capital than start-up banks, made it easier for leading citizens to start a bank by that route. State banks were usually given more latitude in lending as well, particularly with regard to real estate loans, which were off-limits to national banks.

Banks played a major role in developing the nation's cities, not only through lending but as buyers and custodians of state and local bonds and the utility bonds that financed the growing network of gas and utility lines.

More than anything else, banks were formed to grease the wheels of economic expansion. And expansion was the byword of American enterprise, the product of the concept of Manifest Destiny that pushed the boundaries of the country — and its population center — ever westward. The number of farms and farm output tripled in 1865-1910, while the value of goods and services grew from $6 billion in the late 1860s to $30 billion by 1900.

Railroads, which led much of the expansion, absorbed nearly $10 billion in capital in 1865-1915, much of it in the form of bank loans. Steel output mushroomed to meet the demand for rails and other industrial needs; from 100,000 tons in 1872, steel output passed 10 million tons a year by the turn of the century.

Yet much of the growth in commercial banking came after the dawn of the new century. With an inelastic, gold-backed currency, government-imposed efforts to limit the amount of money in circulation, and the entry of many new banks, the average bank was no larger in 1896 than it had been in 1870.

It was after 1900 that urban banks grew increasingly specialized and sophisticated and began building rapidly. National City Bank, New York — the forerunner of Citibank — had $276 million in deposits in 1913, making it the colossus of its day. The First National Bank of Chicago, chartered in 1863 with initial capital of $100,000, had grown to $145 million in assets that year.

Simultaneous with urbanization, the concentration of deposits and lending increased. The seven largest banks in New York City made 26% of all loans by state and national banks there in 1890; by 1910, that figure had climbed to 46%, and it would continue to rise.

Checking accounts, an important vehicle for merchants by the time the Civil War began, grew as a medium for consumer deposits. But certificates of deposit and savings deposits grew as well, rising from roughly one-fifth of consumer deposits by 1901 to a third by 1913, when half of all national banks were offering savings accounts.

The casualty list of national banks was not as long as many had feared back in 1863, when the system was established. By 1913, 538 of 10,472, or 5.1%, of national banks chartered to that time had failed; in contrast, the failure rate of other types of banks in 1863-96 was 17.6%. Many of those national banks chartered in the first days of the National Bank Act had prospered and were going strong.

Still, agitation for reform filled the air in the early 1900s. The inelastic currency and lack of liquidity in a banking system tied to strict observance of legal reserves — often in the form of deposits in exchange for government bonds — tended to foster a boom-and-bust accordion that expanded credit too quickly in good times and contracted too fast when times turned hard. Flows of gold in and out of the country played a significant role, and speculation in boom periods eroded the basic soundness of the system.

The nation's money supply, which grew at a meager 1.3% rate in 1867-79 (actually declining in five of those years), sprinted ahead at a 6% clip in the last two decades of the 19th century. In 1897-1914, it grew at an even faster average of 7.5%, much of that due to increased gold flows into the U.S. from abroad that enabled more money to go into circulation.

The bills that we know today were only a minor element of currency in those days. Federally printed "greenbacks," first issued in the Civil War, by 1913 trailed three other exchange mediums in overall representation in the system — notes issued by national banks, gold certificates, and silver certificates. For the consumer, coins played a far larger role than they would in later years, when federally issued paper money became the popular medium of exchange.

Even with more money in circulation, however, the system's weaknesses showed — and glaringly so in 1907, when a fiscal crisis in New York triggered by stock market troubles that shriveled available credit almost brought Wall Street to its knees. From that near calamity came a federal commission that scrutinized money and currency systems in this country and abroad. That commission would serve as the impetus for the Federal Reserve Act, the legislation that created the basic banking system we know today; this system would enable a reserve-poor banking industry to draw upon government-controlled reserves, not those pooled at will by banks themselves.

For too long, reformers argued, the nation's banks had relied on a pyramid of overlapping and often illusory reserves pledged by smaller banks to larger ones. The largest banks, particularly in New York, frequently loaned some of these reserves to stock speculators, in a pattern of call loans that could precipitate panic if banks started calling in the credits, and stocks bought chiefly on collateral had to be dumped quickly, as happened in 1907.

The public frequently held the banks at fault for the tightness of credit and a system that appeared too often to rely on powerful banks bailing out their lesser brethren. But historian Paul Trescott argued that limp capital investment, speculation, and commodity weaknesses also played a role; the banking system at the eve of the Feder-

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IMPORTANT DATES 1865-1913

1865 — Tax on state bank notes is authorized. Allotment system is established for aggregate circulation of national bank notes.

1870 — Legislation raises ceiling of national bank notes in circulation.

1873 — National financial crisis begins in September. Stock market closes for 10 days.

1874 — U.S. Treasury is made the redeeming agency for national banks.

1875 — Resumption Act authorizes resumption of specie payments for paper bills.

1875 — American Bankers Association, the industry trade organization, is founded.

1879 — Resumption of specie payments begins Jan. 1.

1884 — Fiscal crisis begins in New York in May. More than 110 banks fail.

1890 — Financial crisis, concentrated in the East, begins in the fall, peaking in November. Pooled loan certificates are used to stem runs.

1893 — Panic of 1893, brought on by shrinkage in deposits, strikes hard in West and South.

1896 — Populist Party's presidential bid, based on call for minting of silver, fails. Silver agitation starts to fade.

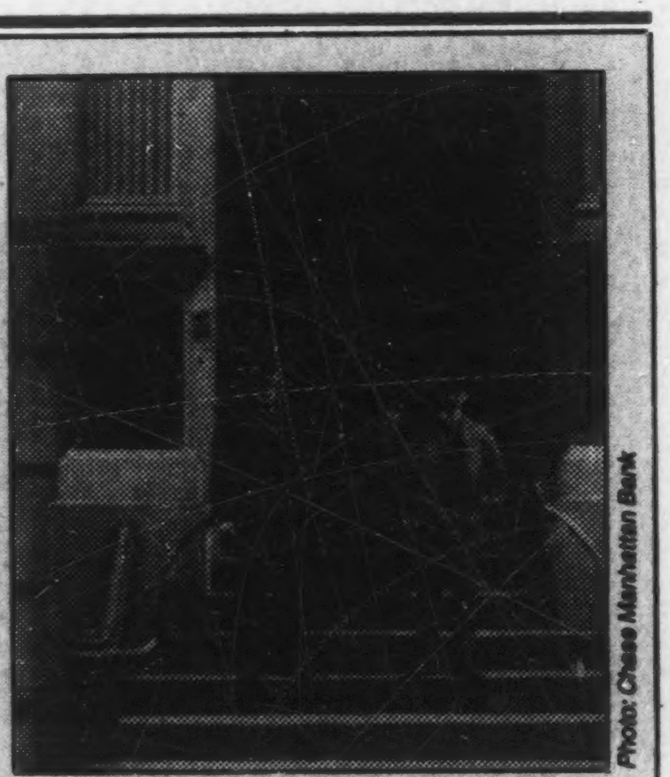


Photo: Chase Manhattan Bank

1900 — Capital requirements are eased for small-town national banks. Gold Standard Act permits banks to issue notes for 100% of capital instead of 90%.

1900 — Boston Clearing House begins uniform clearing procedure in New England that becomes basis for modern check-clearing operations.

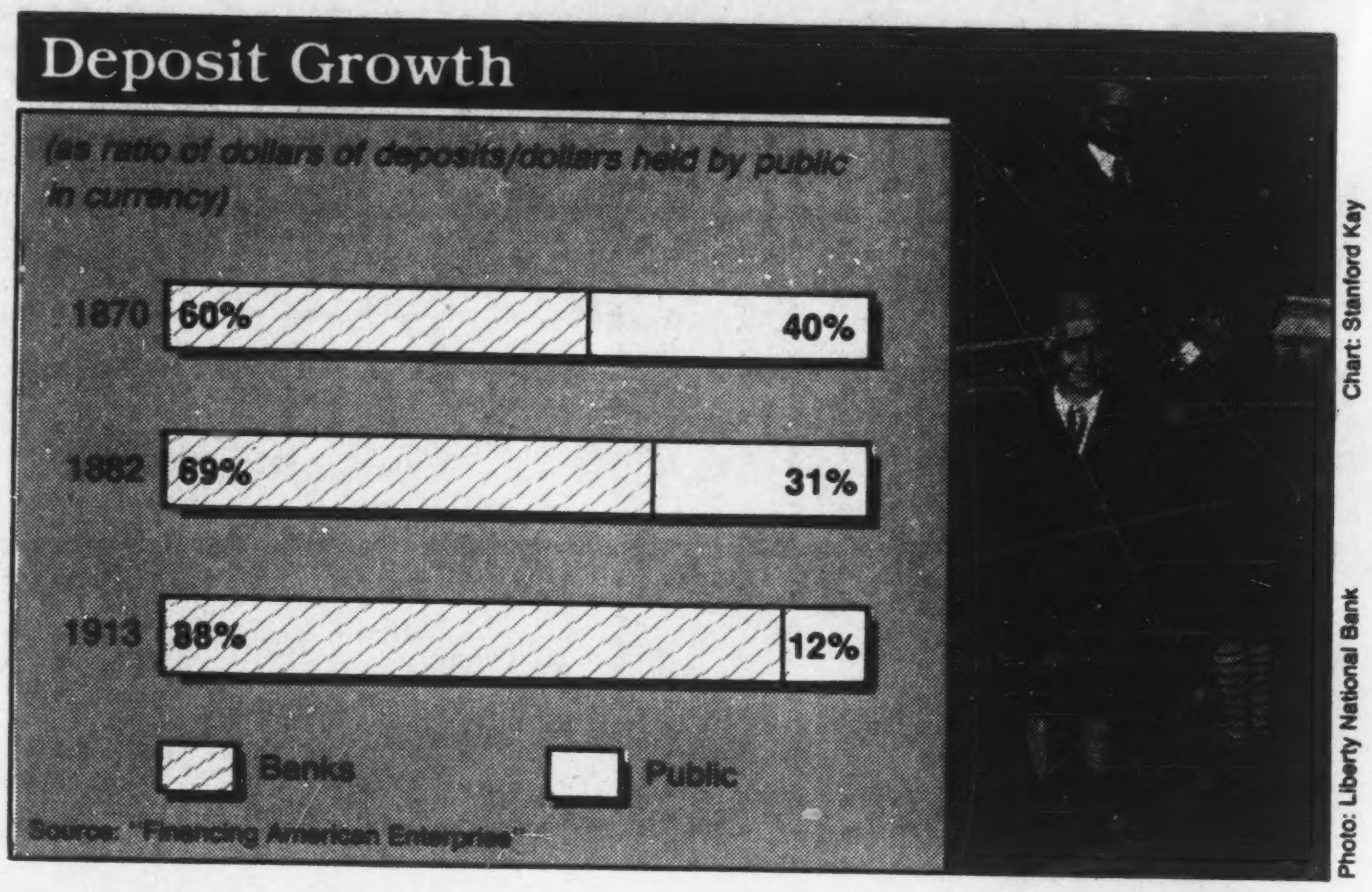
1901 — American Institute of Banking is formed.

1907 — Panic almost brings down Wall Street. J.P. Morgan personally leads efforts to save brokerages, major banks.

1908 — Reserve requirement for federal deposits is eliminated.

1913— Federal Reserve Act creates Federal Reserve System.

Jeffrey Marshall is senior editor/ writer of Banking Week, an American Banker weekly publication.



Deposit Growth

(as ratio of dollars of deposits/dollars held by public in currency)

Source: "Financing American Enterprises"

Chart: Stanford Kay

Photo: Liberty National Bank

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al Reserve Act, he said, "was simply one unstable element among a considerable number."

No Rush to National Banks

The National Currency Act — its name was changed in 1874 to the National Bank Act — failed to spur the immediate rush to charter national banks that its framers had intended. Many state-chartered banks, with names they had carried for years, cared little for the idea of becoming "Second National," "Third National," or the like. And the New York Clearing House at first refused to admit national banks, considering them an evolution of the "wildcat banks" that had proved so unstable before the Civil War.

National charters, moreover, gave banks no initial financial incentive to join the national system: Notes issued by national banks in exchange for deposits were redeemed in the same way as notes issued by other banks that had no government backing. This situation was corrected in 1865, however, when a bill was enacted imposing a tax of 10% on the notes of all state banks paid out after July 1, 1866.

The tax had its desired effect. On Oct. 31, 1864, there were 453 national banks. A year later, the number had more than doubled, to 1,014, and deposits had tripled, rising from $79 million to $243 million. By July 1, 1866, the ranks of national banks had reached 1,634.

While the federal umbrella and the tax on state-chartered bank notes lured many banks to the national system, the growth of state and private banks attested to a widespread wish for fewer regulations and less-stringent capital requirements. By 1871, the percentage of deposits in state and private banks, as a percentage of all commercial bank deposits, had risen to 50%, from 40% in 1867.

Still, in the eyes of many, the currency reform of the National Banking Act was its biggest selling point. The notion of a standardized currency, be it in the form of greenbacks or national bank notes, offered the promise of money redeemable at par, or face value, anywhere in the country — a far cry from the prewar days when bank notes, sometimes fraudulent, were frequently redeemed at steep discounts and often in distant areas where the issuing bank's reputation could not be easily checked.

To Jay Gould, the financier who built up huge railroad holdings (he owed $20 million to banks by 1884, largely for rail borrowings), the federal banking system combined "the unity of action and general control, and the uniformity of currency — which were the best features of the [earlier] United States Bank — with the diffusion of issue and freedom in local management which characterize the state system."

Limiting Currency

A key element in the plan for setting up the national banking system was the notion of limiting the amount of currency in circulation. No national bank was allowed to issue notes exceeding its amount in capital stock, and each was required to hold bonds representing at least a third of its capital. The aggregate amount of national bank notes in circulation was set at $300 million. Meanwhile, the amount of "legal tender" notes, or greenbacks, was frozen at $356 million in 1868.

This limitation was a favorite idea of Eastern conservatives, who regarded increased circulation as an invitation to speculators to bet on inflation driving up the price of goods. But because banks in the East, which held the bulk of the nation's population and influence, appeared likely to take a disproportionate share of the $300 million circulation, Congress in 1865 amended the aggregate circulation regulations to allow just half to be allotted on the basis of representative population.

Still, by 1870, banks in the West and South complained that they were not getting their fair share. That year, a correcting law permitted states without a due proportion to draw from an amended aggregate that was increased by $54 million; states with more than their allotment were subject to a withdrawal of up to $25 million of that allotment. However, the South remained badly underrepresented in the ranks of national banks: Fewer than 100 of the 1,600 or so in 1870 were in the South, and there were none in Florida or Mississippi.

Reconstruction brought problems that reverberated beyond the South. The Panic of 1873, which started in New York, engendered a depression that lasted, according to some accounts, until 1879.

This panic set a pattern that was to be followed in subsequent crises. A seasonal crunch developed each fall when farmers sought payment for their crops in currency. But this currency wasn't on hand. During the spring and summer, farm banks would have sent the money to larger banks that would pay interest. These large banks, however, turned around and loaned this money to speculators and financial houses and were unable to give back to farm banks all the money they had taken.

The result was a tightness in the system that sometimes reached ossification, particularly when the stock market was falling and banks were hurriedly calling in loans.

Panic of 1873

The 1873 panic began in New York in September with several bank failures. A run on the larger banks by their smaller brethren began in the middle of the month, and the stock market began bleeding so heavily that it was closed for 10 days. A general suspension in the banking system was instituted and lasted more than a month, beginning with a halt to payments on checks calling for large amounts of legal tender. More than 5,000 companies failed in 1873, and close to 6,000 went under in 1874, many because credit they needed to ride out the economic slump was unavailable.

As would be the case in later crises, loan certificates issued by bank clearing houses were used to settle banks' demands on each other. At first, $10 million in certificates was issued; a few days later, another $20 million was issued, buttressing the system and enabling creditor banks to meet their obligations.

About this time, legislation was being drafted for a return to specie payment — payment in gold coin on demand. Specie payment had been suspended in 1861 by banks hoarding their reserves in fear of wartime instability, sending the price of gold skyrocketing and adding greatly to the cost of the Civil War. In 1874, Congress passed a bill that would have increased the amount of currency in circulation, but President Ulysses S. Grant vetoed it on the grounds that it would have delayed the date of currency convertibility to coin.

The Resumption Act, adopted in January 1875, set Jan. 1, 1879, as the date for resumption of specie payments. A victory for fiscal conservatives who sought to cap the amount of currency in circulation, the act did offer an olive branch to monetary expansionists. As historian Charles F. Dunbar noted, the act "fortunately swept away all the provisions limiting and apportioning the aggregate amount of bank notes to be authorized, as well as those calling for the withdrawal and redistribution of bank notes already authorized." With the fetters removed, in other words, the banking system was no longer chained to a system that constrained growth by preventing banks in a boom area from exceeding their allotment of authorized notes.

Throughout the 1870s, agitation had been building for the government to be the sole issuer of money. The Greenback Party, which met in Indianapolis in 1876, pushed for the retirement of national bank notes; it believed that government minting would surely increase the amount of money in public hands; because the availability of more money would decrease its overall value and bring inflation, crop prices would rise. As it was, crop prices were generally falling through the decade.

Natty bankers in 1908

Photo: Norstar Bank of Long Island

The Greenbackers made little impact on national policy, but the resumption of specie payment did bring a significant flow of gold back to the United States. With that, the lifting of the ceiling on national bank notes, and instructions for the government to build its gold reserve, the amount of currency in circulation did rise, and the depressed economy revived somewhat.

Financial Boom; Farm Bust

The last part of the century was a study in contrasts — a general boom in the financial markets, with financiers amassing titanic fortunes, but difficult times on the farm. Crop prices actually declined through much of the period, because the availability of crops continued to mount and an absence of inflation kept prices from rising. In 1886, prices were 60% below their 1864 wartime levels, and they dropped another 20% by 1896. Wheat, which sold for $3 a bushel in 1866, slid to $1 in 1884 and 56 cents in 1896.

But the rush to own land brought enormous growth to rural America, despite the depressed prices. Farm banks sprang up everywhere to provide capital to those tilling the land.

The national banking system got a shot in the arm in 1882, when a law extending the charter of national banks for 20 more years provided a change that prompted more banks to opt for the federal charter. The proportion of their capital that national banks were required to keep on reserve was reduced from one-third to one-quarter if the bank had less than $150,000 in capital.

Still, many states had much lower capital requirements — some only $10,000 for a similar-sized bank — and the dual banking system continued to grow, separately and apart. National banks' lending limits still were restricted to a function of their legal reserves, held in gold and coins, notes, and certificates; state laws were more forgiving.

In 1882, there were 2,239 national banks, and 704 state-chartered institutions. By 1900, however, state charters had zoomed to 5,000, while the number of national banks had grown to just 3,731.

Foreign banks still handled almost all credit and financing for U.S. banks engaged in business abroad. Many domestic banks, in fact, had one principal form of lending: short-term IOUs from merchants or middlemen holding goods. Banks discounted these IOUs, buying them from merchants at less than face value to account for interest that would be paid to the tradesmen, and considered them safe, short-term, and liquid.

Bank supervision was tightening. Only five states had examined banks regularly in 1863, and New York didn't do so until 1884. But by 1895, there were 15 state banking departments. Yet examiners were poorly paid and often poorly trained, and to save expenses, they often took regular routes that brought them to the same series of banks during one trip — giving banks toward the end of the line time to prepare for their arrival.

The shortcomings of many examinations were summed up by a banker from Ironton, Ohio, who told the American Bankers Association convention in 1887: "I found examiners to be gentlemen of high character, yet they have one great fault. They are too fast. One might think that . . . the Furies were driving them on, on, ON without rest."

Crisis of 1884

A crisis in 1884 started, according to some accounts, when public fears that specie payments would start being made in silver and not gold prompted large-scale withdrawals. New York, again, was where the crisis hit hardest, and historian Dunbar said that fraud played a part. The failure of Marine National Bank on May 6 that year, for instance, came "under circumstances of extraordinary dishonor," he wrote, and Second National Bank revealed a week later "an immense defalcation by its president."

The string of failures lasted a few weeks and claimed 11 national banks and 100 banks, several of them good-sized private institutions.

But this crisis was hardly the stuff to still expansion. In the 1880s, railroad lines began stretching everywhere, and the fortunes of their owners swelled. Edward Harriman, Cornelius Vanderbilt, and Jay Gould were the chief railroad moguls, and Andrew Carnegie and Henry Frick, among others, were making heaps of money forging the steel that the railroads quickly

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devoured. Not surprisingly, the bonds between banking and the railroads were often strong: a study in the late 1880s found that 69 of 100 prominent railroad capitalists in New England were officers or directors of local banks.

Growth in the national banking system slowed sharply in 1885-90, when only 138 national banks were chartered. But state-chartered banks grew like topsy, often because prominent merchants, dissatisfied borrowers, or immigrant groups wanted to form their own banks.

"Because new banks could be started easily, and because banking regulations were relatively mild in many areas, the banking system was highly sensitive and responsive to evolving credit needs," said historian Trescott.

Hard times in the Farm Belt brought continuing agitation for the minting of silver as a means of increasing the money supply and boosting prices. William Jennings Bryan, the spellbinding orator, rose to prominence through his impassioned pleas for silver. And the government responded in part, beginning the issue of silver-backed certificates in 1878 and continuing them until 1890, when they were replaced with Treasury notes based on silver bullion.

The scarcity of paper money was largely brought on by a major shrinkage in national bank note circulation. With U.S. bonds selling above par in the 1880s, and national notes selling for only 90% of par, many of the national notes were withdrawn. Moreover, the government was still keeping a lid on the amount of greenbacks in use.

National bank note circulation reached its highest point, $359 million, in 1882. By 1891, that total had shrunk by more than half, to $168 million, out of a total monetary circulation of $800 million to $900 million.

Trouble in '90, '93

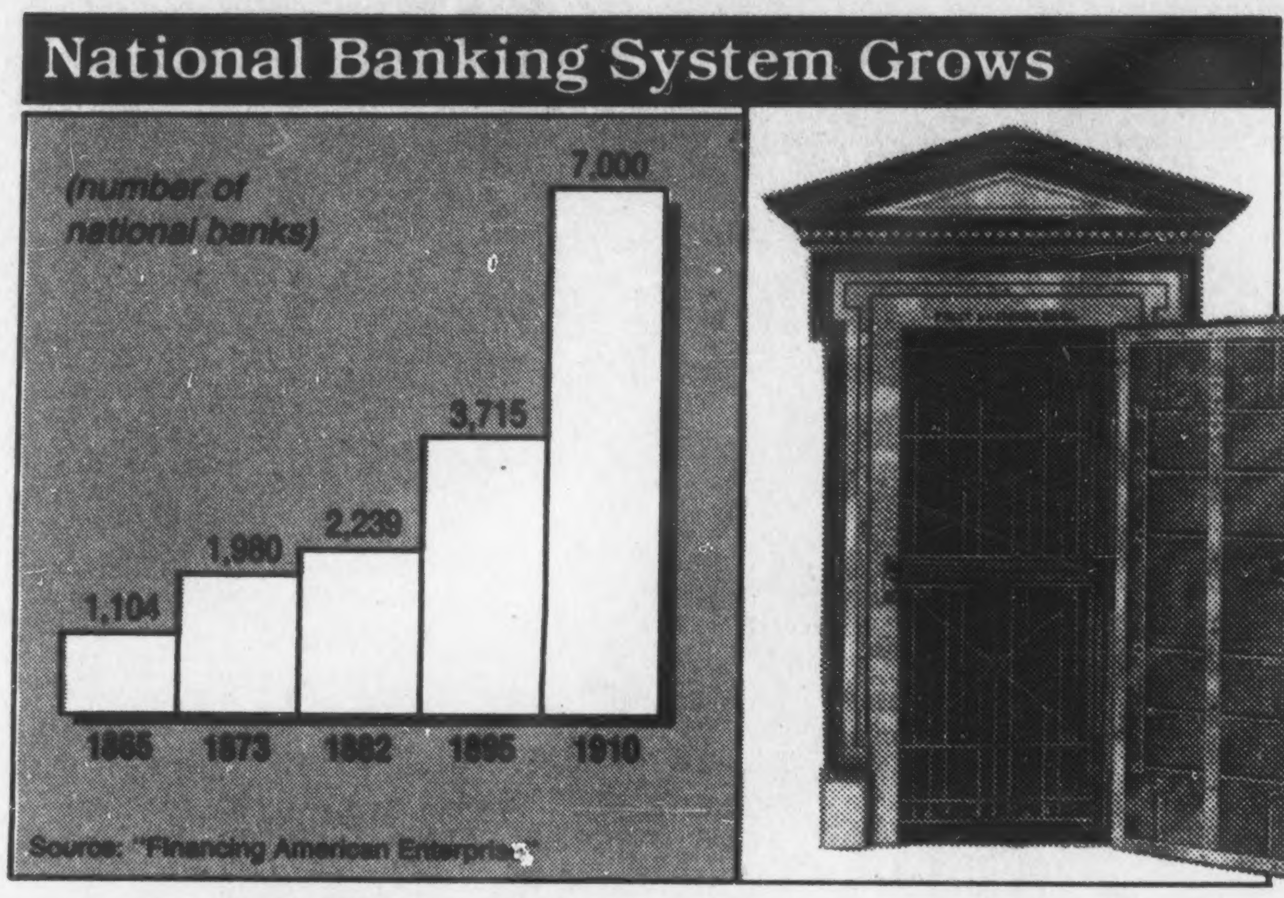
Another crisis flared in the fall of 1890, again brought on by low prices, speculation, and inadequate reserves. Once again, pooled loan certificates were used in New York to stabilize the situation. Historian Dunbar wrote that "it appears [that] the confidence of the public is best secured by showing that the natural system is for a time suspended by something not unlike a vast consolidation."

Three years later, in 1893, a more serious panic hit. Unlike most of the previous ones, this one struck hardest not in New York but in the South and West, where farm prices were still sliding. Of the 360 banks that failed, 343 were located south or west of the Potomac. Once again, clearing house loan certificates were used to quell the crisis.

The *American Banker* deemed it "a money panic signified by universal shrinkage of deposits. . . . Unable to realize cash on the best of securities because cash and not collateral is in general demand — is, in fact, being hoarded everywhere — the soundest institutions are compelled to suspend."

In an editorial, the newspaper fretted about the government insistence on unrestricted redemption from the Treasury in gold. If banks held the gold, the newspaper said, "its outward flow would be restrained somewhat or rendered harmless by the operations of certain powers which lie wholly in the banks."

The editorial went on to argue that "since the bulk of our business operations are founded upon credit, confidence in the future is more essential than the mere redemption of bills in gold; but if this confidence is sustained only because of gold payments, we cannot see any way out of the present situation." It was an old, familiar story: Even though the government was authorized to redeem bills in silver, officials feared that doing so would create a panic by depositors spreading the word that the government would no longer redeem in gold.


National Banking System Grows

Source: "Financing American Enterprise"

Chart: Stanford Kay

Photo: Diebold

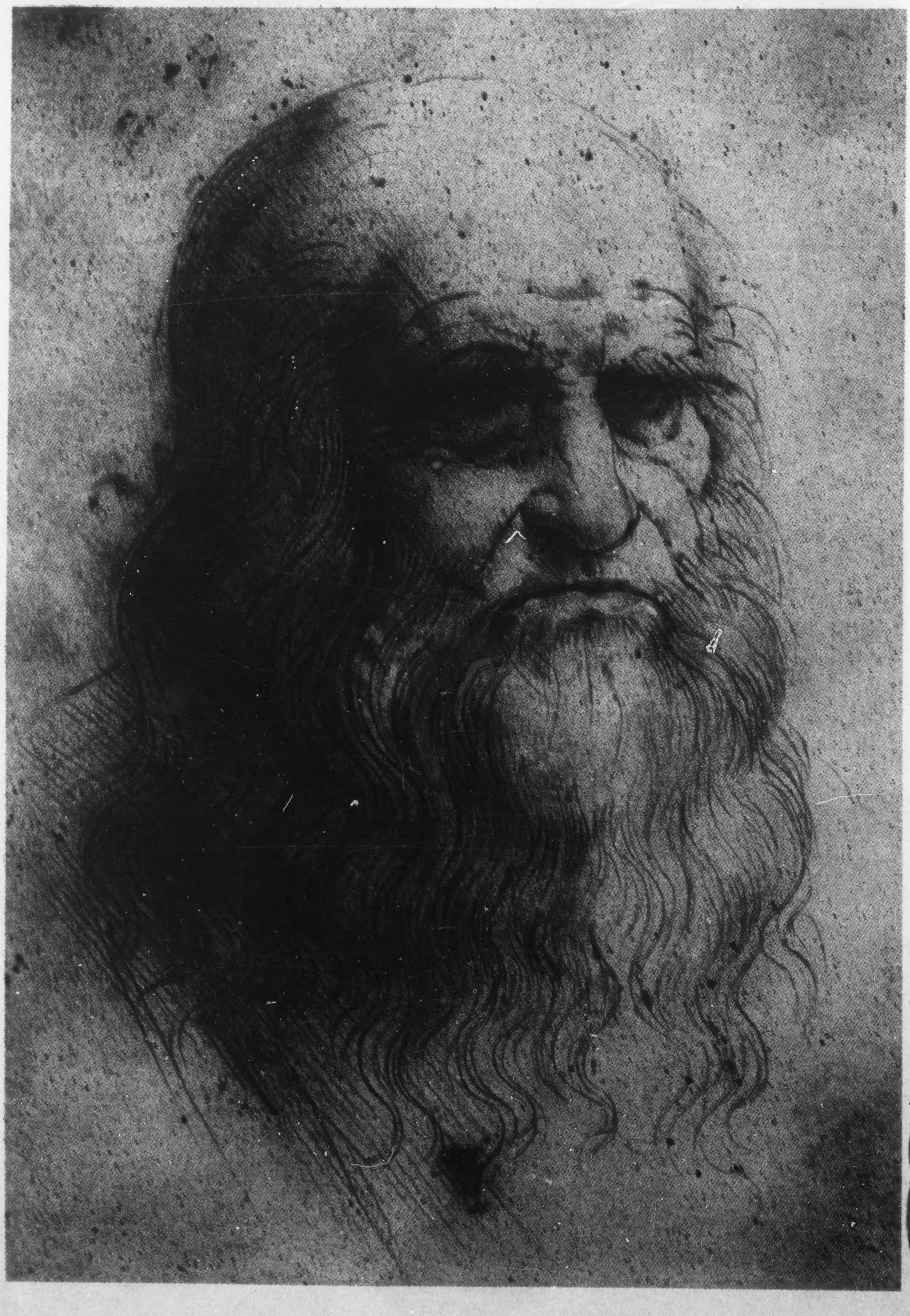
Throughout this period, individual deposits continued to grow, spurred by the extension of banking services to urban dwellers. By 1881, for instance, more than 90% of the total receipts of banks were in the form of checks, drafts, and bills. Checks were viewed as more convenient than bank notes for large transactions, and bank note use continued to dwindle in the biggest cities.

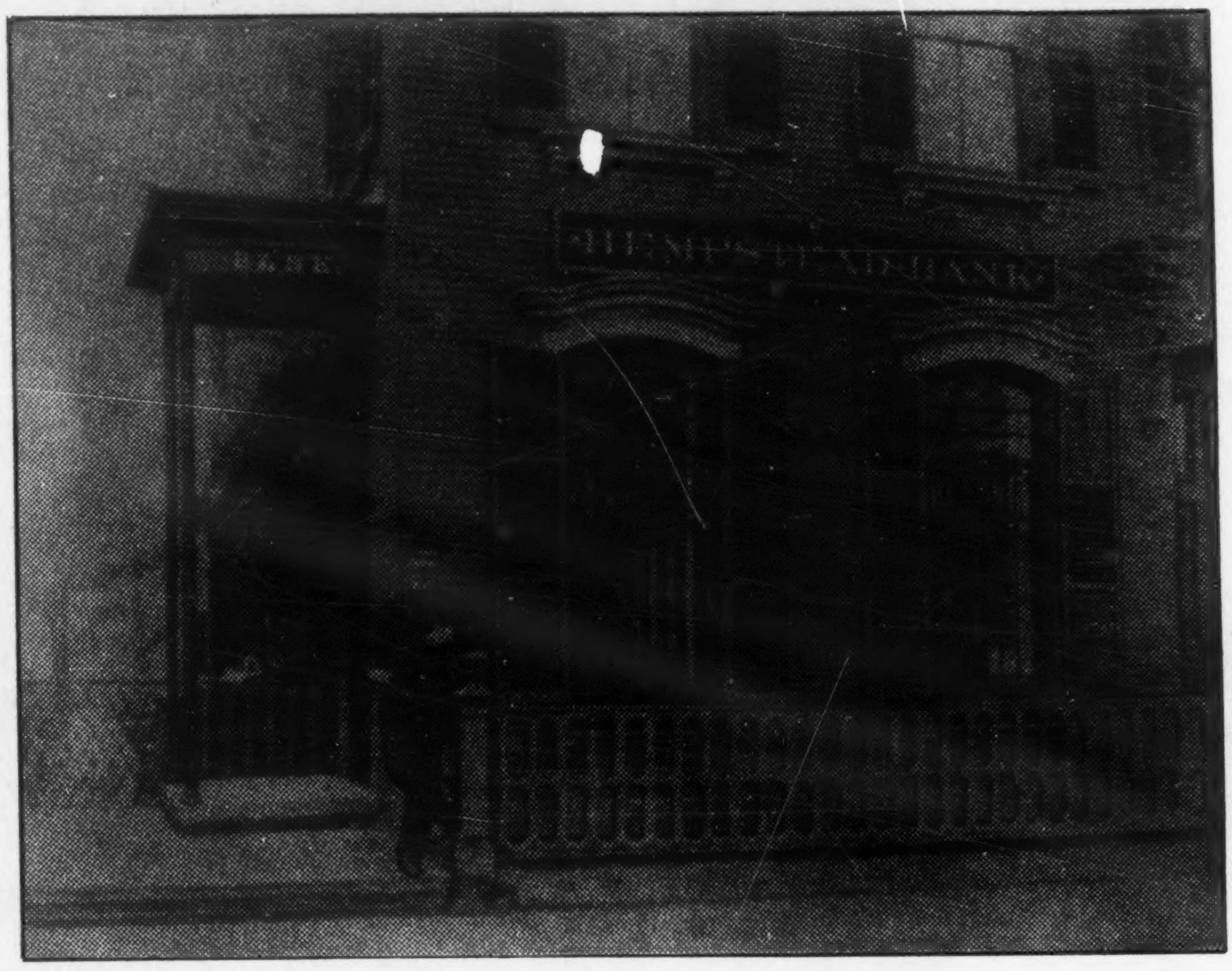
Growth of Trust Companies

Trust companies grew rapidly, especially in the financial centers. While trust companies could not issue money, they "adjusted themselves to meet the complex demands of business as it increased and ramified," noted historian Henry Wysham Lanier. They became invaluable to the well heeled, for they could perform all the functions that an individual, estate, or corporation needed, from acting as a guardian to safeguarding securities to preparing a will or reorganizing a railroad.

The trust companies served the growing web of investors and brokerages dealing in the stock market, then dominated by railroad and steel issues. A host of names came to prominence — Girard Trust Co. in Philadelphia, Rhode Island Hospital Trust Co., Illinois Trust & Savings. But most banks still catered to local enterprises — stores, farms, mills, and factories — that formed their basic borrowing populations.

By 1896, spurred in part by the panic of three years earlier, agitation for silver had reached its peak. The Demo-





Farmers, merchants, and artisans started this Long Island bank in 1887.

Photo: Norstar Bank of Long Island

cratic Party nominated William Jennings Bryan as its presidential standard-bearer. But the "cross of gold" that Bryan bemoaned didn't weigh heavily enough, and the Republican candidate, William McKinley, captured the presidency.

Coincidentally, gold exports from Africa began coming in heavily that year, and crop prices began to respond to the increase in the money supply that resulted. In fact, 1896 is generally viewed as the beginning of a heyday in American agriculture that lasted until 1920.

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Typical Bank, 100 Years Ago

BANKS TODAY certainly are different from their turn-of-the-century predecessors. Here is a description of the way things were 100 years ago at one major Southern institution:

Employees of the 1890s reported for work each day in rather formal attire, including, for the men, long-tailed coats and stiffly starched shirts with bat-wing collars. Women's hemlines swept the floor. Hats were in vogue for both men and women.

There were no automobiles, of course, so employees and customers alike arrived at the bank by streetcar, by carriage, or on foot.

Inside the bank, lobby furnishings reflected the technology and lifestyle of the era. Overhead ceiling fans rotated slowly, providing some relief from both the heat of summer and smoke from the highly popular cigar. Brass spittoons stood at discreet distances from each other around the room.

The forerunner of the sleek teller counters we know was a wire cage, designed to separate petty cash from the reach of nimble fingers. Tellers — primarily men until well into the 1930s — could enter and exit from a door in the rear.

Although women were allowed to use the main lobby of the bank in those early years, it was felt that many of them would be uncomfortable in such a man's world. For several decades, beginning about 1911, most banking offices maintained a department exclusively for women customers. There they could conduct banking transactions with their own special teller (a man), write business letters, or simply relax.

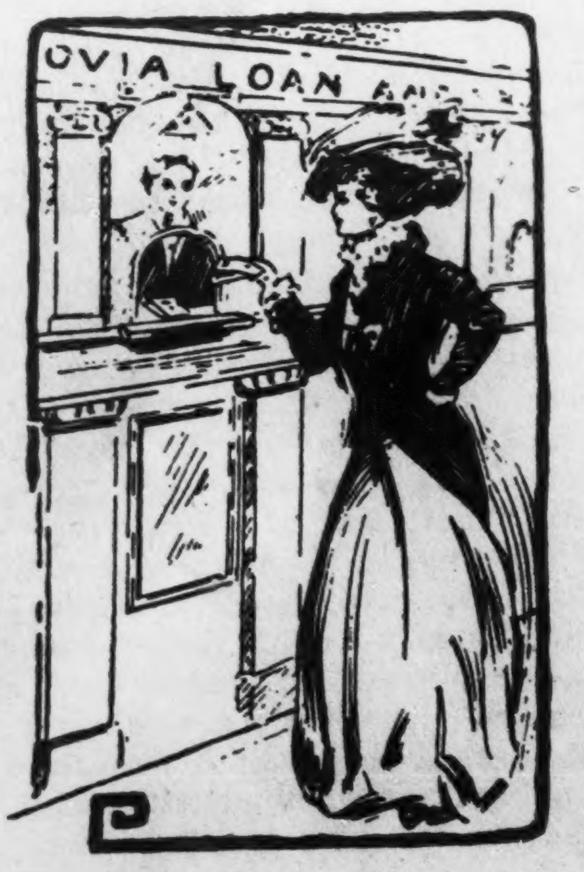
Turn-of-the-century lighting consisted of "three lamps of 16 candlepower each," according to the archives of one office. Later, 24-watt bulbs hung by a long cord over each desk.

"Bankers' hours," a term that today has little meaning for banks that provide all-day service, does have some historical basis.

In decades past, banks traditionally were open from 9 a.m. to 1 p.m. during the week, and 9 a.m. to noon on Saturday. Flexibility, however, was the order of the day and, as one former bank employee recalls, "If a customer came and knocked on the back door after we'd closed, we'd go open it and he'd come strolling in to make his deposit."

Flexibility was the norm for staff members, too. At the end of the month when statements were due, virtually the entire bank would pitch in, working until 7 or 8 p.m. to prepare and mail the statements. That completed, employees would return to their regular duties — until the end of the month rolled around once more.

— The Wachovia Bank & Trust Co., Winston-Salem, N.C.



Leonardo DaVinci was one of the greatest artists of the Italian Renaissance. His portrait *Mona Lisa* and religious scene *The Last Supper* are among the most famous paintings in the history of art. But . . .

look a little further.

A single talent applied to a specific category can be so broadly accepted and universally acclaimed that accomplishments in other areas may get overlooked.

Often we're pleasantly surprised to discover that the same imagination necessary to achieve recognition in one area has so frequently contributed to a wide variety of other successful endeavors.

Leonardo DaVinci is a classic example. It would be easy to acknowledge him only for his profound talent as an artist. His achievements in painting are a convincing argument that DaVinci dedicated his life and energy to the oil canvas.

But when we look a little further we discover Leonardo DaVinci was so much more.

He was among the first astronomers to proclaim that the earth revolves around a stationary sun. Perhaps this same interest in stars and space lead Leonardo to explore the reality of flight.

Some 500 years before the Wright Brothers made their mark in history, DaVinci completed drawings and plans for flying machines. His notebook drawings even reveal the first serious considerations for parachute design.

And as we look a little further, we discover Leonardo DaVinci was a remarkable scientist and prolific inventor. He made significant discoveries and contributions in the fields of medicine, botany, geology and jet propulsion.

Thomas Cook is another classic example of creative versatility. The pioneer in global travel services over a century ago, he also invented the Circular Note, the forerunner of the modern travelers cheque. Today, Thomas Cook Financial Services remains one of the largest issuers of travelers cheques.

But if you look a little further you'll learn that Thomas Cook Financial Services is the source of a unique variety of innovative wholesale services for financial institutions.

Leonardo DaVinci and Thomas Cook are two examples of the valuable knowledge and rich rewards that can be realized when we resist the temptation to take something for granted and take the initiative to look a little further.

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Premium Services. A unique card enhancement program.
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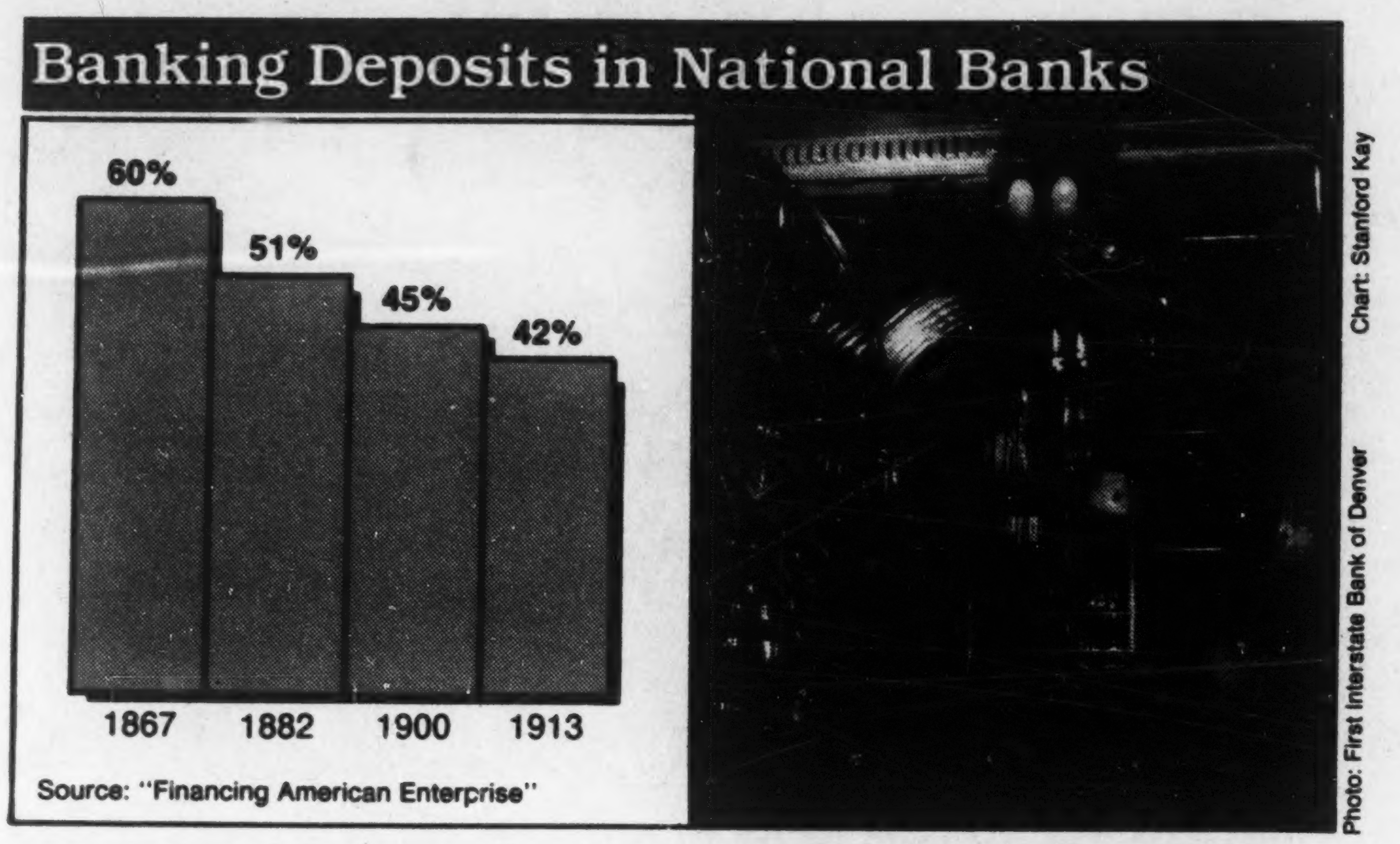
High-Water Mark for Banking

The period ending about 1913 was, at least in one respect, the high-water mark for American banking. By 1912, 88.2% of private citizens' available funds were held in commercial banks, up from 55.5% in 1867 and 81.3% in 1900. One study concluded that banks never again held such a high percentage of all fiduciaries' funds.

The high water came from many sources. In 1900, three-fourths of all banks were operating in small towns, often cheek-by-jowl with others of similar size. Half of all earning assets of commercial banks were in the form of short-term business loans to small and medium-size firms; long-term business credits, such as corporate bond holdings, were less than a fifth the total of short-term loans.

The small-bank phenomenon continued to blossom in the early years of the new century. In 1900, Congress amended the law to permit national banks to be formed in small towns with only $25,000 in capital, not $50,000, as it had been. But demand for banking services in rural areas played a larger role in the expansion. Oklahoma added an astounding 810 banks in the 1900-1914 period, and North Dakota added 613.


Banking Deposits in National Banks

Source: "Financing American Enterprise"

Chart: Stanford Kay

Photo: First Interstate Bank of Denver

Competition stimulated innovation. Branch banking had been largely denigrated in the late 1800s; it was considered unwieldy, and, perhaps worse, a threat to the pioneer spirit that induced businessmen to form their own banks. Moreover, a network of correspondent banks, which offered services such as check-clearing, asset management, and stock trading to smaller-city cousins, continued to grow, mitigating the appeal of branches.

But the barriers began to erode. An 1898 law permitted branching in five New York counties, and California adopted a branching law in 1908. Chain banking — the development of banks owned by one "chain," or common owner — began to develop, particularly in the Midwest, West, and South.

Commercial paper, which had been in existence as far back as 1860, beckoned to many larger banks in the early 1900s. They began to buy this short-term debt, issued directly by corporations as a means of raising money, in the interest of diversification and liquidity. Much of their money, after all, was still invested in railroad bonds; by 1912, banks held $900 million in railroad paper.

Growth of Credit Analysis

It was in this period that credit analysis, the process of investigating existing and potential borrowers to determine their creditworthiness, became an important adjunct at many larger banks.

Ignoble Managers Corrupted a Noble Notion In the Destruction of a Reconstruction Bank

GREED AND GRAFT — the two Gs that played an outsized role in Reconstruction — figured prominently in post-mortems of the Freedmen's Savings Bank, liquidated in 1874 after nine years of life. Like many Reconstruction-era efforts to help freed slaves, it began with noble aims and noble pronouncements and ended with that nobility in tatters, having been subverted by privateers who saw in government or quasi-government services for blacks a chance to line their own pockets.

The Freedmen's Savings Bank, chartered in March 1865 after Abraham Lincoln signed legislation authorizing its formation, was designed, as its name implied, to provide a place for freed slaves and other blacks to put their savings. Interest of 6% was to be paid on deposits, and principal targeted customers were the former soldiers who had mustered out with cash but had no history of saving or using banks.

Officially chartered as the Freedmen's Savings Bank & Trust Co., it aimed to improve the lot of blacks, according to its statement of purpose, by "fostering habits of thrift and economy, by encouraging them to save their earnings, and thus secure a safe, economic position in society."

Leading the drive for the bank was John W. Alvord, a Congregationalist minister who had traveled with Gen. William T. Sherman's army in the final weeks of the Civil War. Seeing firsthand the difficulties black soldiers experienced with military banks, he envisioned a network of branches across the South that would collect deposits and invest them largely in U.S. government securities. Attesting to its high purpose was a clause affirming that interest on deposits uncollected for two years after the death of a depositor would be set aside for the education of blacks.

From the outset, however, powerful ambiguities swirled around the bank. In the months after the war ended, Alvord himself was attached to the Freedmen's Bureau Educational Department, a government-sponsored entity under Gen. O.O. Howard that aimed to help blacks through education. Branches of the bank tended to be established in the same building where the department had its offices, and bank officials often wore uniforms — and frequently solicited deposits. Yet the bank never had any official ties to the government.

Moreover, Alvord, who was traveling through the South for the Freedmen's Bureau educational arm, apparently represented as an order a recommendation from Gen. Howard that blacks deposit their money with the Freedmen's Savings Bank.

Limits Ignored or Unknown

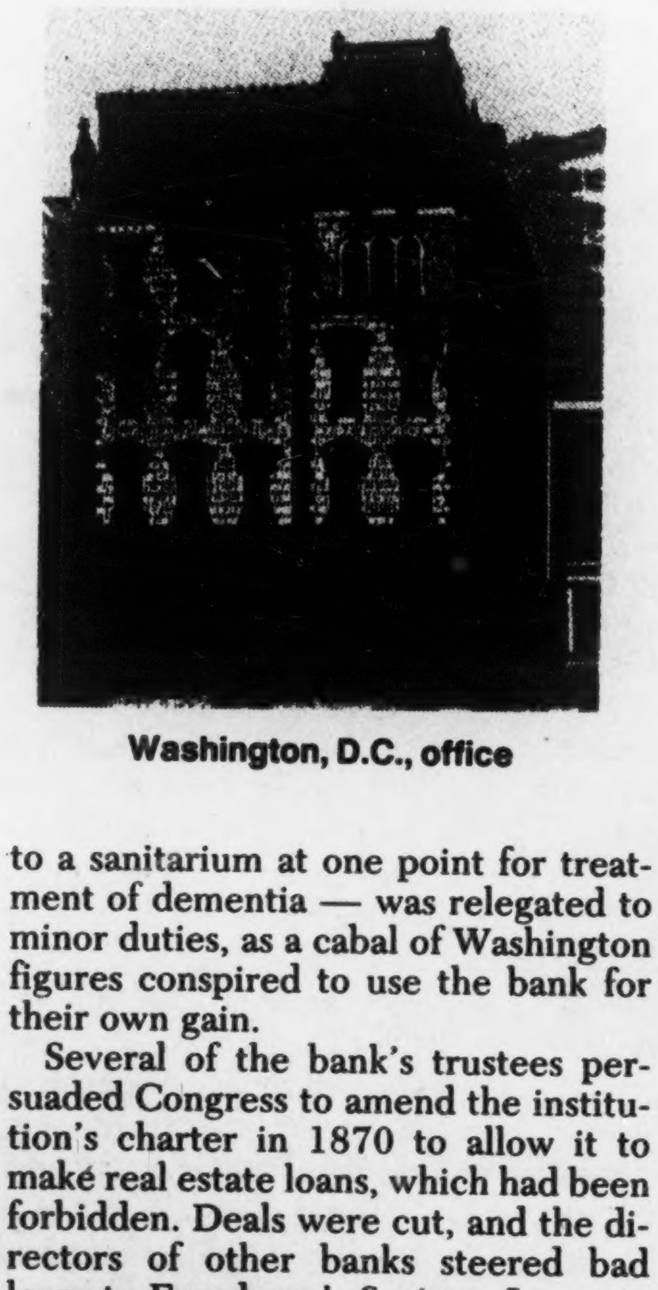
Another ambiguity centered around the bank's permissible activities. In passing the bill authorizing the bank, Congress intended that it be chartered in — and its activities limited to — the District of Columbia. The charter was made effective for the District, but Alvord and his colleagues never proposed to limit business to Washington; a network of branches across the South was their goal from the outset. Later accounts indicate that the founders either did not know or flaunted the charter's limits.

In any event, the Freedmen's Savings Bank set up headquarters in New York City in April 1865 and began accepting deposits. By May 16, a mere $700 had come in. The District of Columbia branch was set up in July, and, thanks to Alvord's efforts, the bank began adding branches in scattered locations around the South.

Military banks in Norfolk, Va., and Beaufort, S.C., were then absorbed, swelling deposits, and the bank had 10 branches by the end of 1865 and 10 more by the end of 1866. From then on, the pattern fluctuated sharply. No branches were opened in 1867, but three were in 1868, one in 1869, and eight in 1870. The addition of two more in 1871-72 gave the system its final total of 34, the vast majority in the Deep South.

Deposits grew apace with the opening of the branches. By the end of 1866, they stood at $305,167, rising to $12.6 million in 1870 and $57 million in 1874. Still, the average deposit was tiny; over the life of the bank, the average in any account at any one time was $50.

Alvord, who began as the Freedmen's Savings Bank's recording secretary, became its president in 1868, and its headquarters were moved from New York to what was described as "a fine building erected especially for it, opposite the United States Treasury."


Washington, D.C., office

The move to the capital was to play a large part in the bank's downfall. Alvord, who was aging and apparently somewhat addled — he was committed to a sanitarium at one point for treatment of dementia — was relegated to minor duties, as a cabal of Washington figures conspired to use the bank for their own gain.

Several of the bank's trustees persuaded Congress to amend the institution's charter in 1870 to allow it to make real estate loans, which had been forbidden. Deals were cut, and the directors of other banks steered bad loans to Freedmen's Savings. Loans in real estate proliferated after the charter change allowed half of all the original provisions for U.S. securities — initially, they represented two-thirds of the bank's portfolio — to be invested in real estate or bonds.

Misplaced Decimal Points

While the headquarters office was robbing the store, the branches were having problems of their own. Most were still merely collecting deposits and paying interest on them, but incompetence and fraud were rampant. Records showed that some entries were improperly recorded, often because decimal places were wrongly positioned; a draft of $31.60, for instance, was recorded as $3,160. Bookkeepers were often poorly qualified, particularly in smaller rural branches.

Regulatory laxity contributed to other problems. Overdrafts were frequently permitted to more prominent borrowers, and central authority was almost nonexistent. Nor were regular inspections carried out.

Corruption apparently became a province of those who would be least suspected of it — the clergy. "The white clergymen who were cashiers proved to be quite unable to withstand the pressure of cash in the vaults," wrote Walter L. Fleming in *The Yale Review* in 1914.

One such cashier, the Rev. Philip Cory of the Atlanta branch, tried to discourage black depositors, an obvious breach of the bank's mission. When he was removed, his black successor found that the Rev. Cory had embezzled $10,000. He was eventually convicted and sentenced to four years in prison; as it turned out, he was the only person connected with Freedmen's Savings ever to be prosecuted.

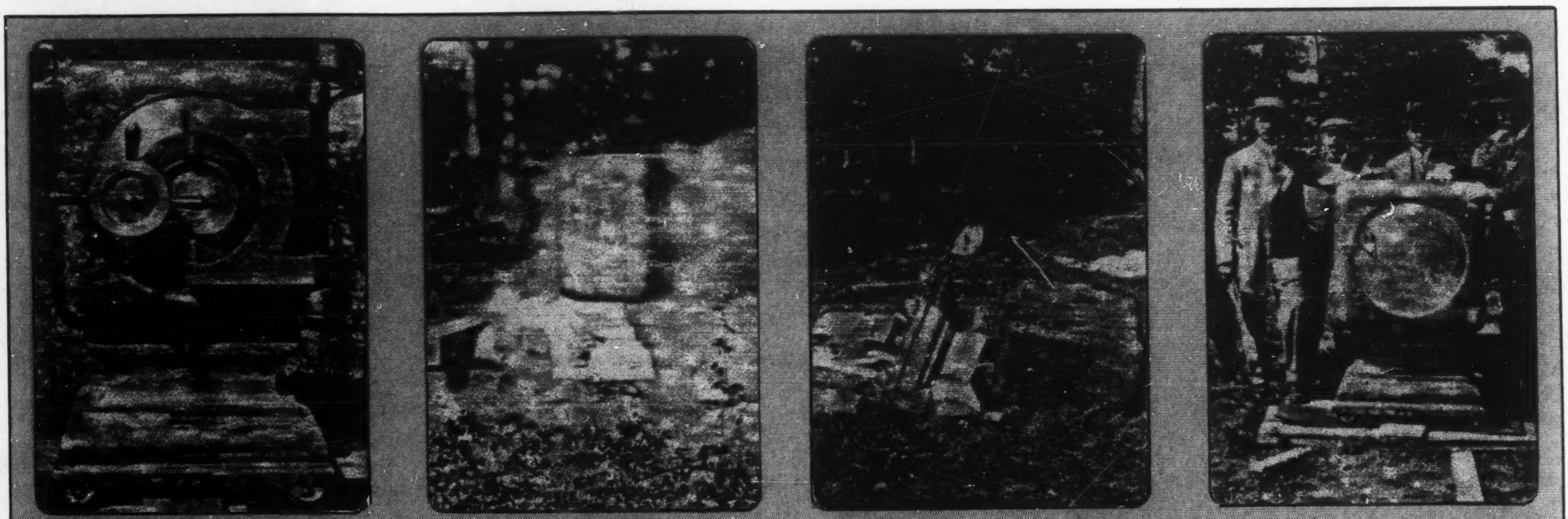
As the real estate market turned down in the early 1870s and the bank's real estate woes mounted, runs began. Three beginning in 1873 took $1.8 million out of the bank in 18 months. Trustees decreed in 1873 that withdrawals could be made only with 60 days' notice; the effect was to dry new deposits to a trickle. The Comptroller of the Currency that year reported serious mismanagement at the bank, and a report in February 1874 showed it had been insolvent for almost a year.

The string was played out slowly. Trustees were still trying to lure deposits, even after they had prudently pulled out their own funds. But Frederick Douglass, the black leader, blew the whistle. Elected president of the bank early in 1874 in an attempt to shore up the bank's credibility, he knew nothing of the insolvency for some time. But his suspicions grew, and by late spring he had gone to Congress to report his worries. After an investigation, officials decided in June to liquidate the bank.

The postscript for Freedmen's Savings was not a happy one. Commissioners were appointed in July 1874 to bring order to the books — losses were put at $280,000 — and to pay dividends to depositors. Three such dividends, all meager, were paid by 1880. A clamor went up from blacks, who pointed to the bank's professed congressional mandate and government connections and argued that Uncle Sam should make them whole.

But it never happened. Despite congressional investigations in 1876 and 1880 that uncovered widespread fraud and mismanagement, and recommendations by several comptrollers in the 1880s and 1890s that the government offer relief to depositors, Congress never responded. A bill for depositor relief did clear the Senate in 1888, but it died in the House, and no more dividends were ever declared.

— ***Jeffrey Marshall***



Field testing of safes in the late 1800s included attempts to blow them up to demonstrate their invulnerability, as Diebold did in this sequence. Bankers chose the safes for testing from a stockpile. Then the safes were transported to nearby farmland where they were blasted with explosives and inspected by the onlookers.

From fewer than 10 such departments in 1899, the credit analysis movement had spread to most major banks by 1911.

"Department store banking," the forerunner of today's "financial supermarkets," emerged as banks diversified to compete more effectively with trust companies, private banks, and savings institutions. Though barred from lending on real estate, commercial banks found ways to sidestep that ban. Frequently, they formed mortgage and trust companies, often in the same building as the bank. By 1913, banks held almost $700 million in farm mortgages, out of a total of $4.7 billion.

Bankers Trust Co., New York, was formed in 1903 as a specific reply by commercial bank opponents of the trust companies, many of which, bankers felt, were operating imprudently. That same year, the New York Clearing House began to demand a 10% reserve from trust companies to use the clearing house services; some trust companies proceeded to drop out of the clearing house network.

But it was another clearing house, in Boston, that provided a processing breakthrough. In 1899-1900, the Boston facility began a uniform clearing procedure for clearing the checks of all New England banks. Remittances would be at par, and any banks that refused to pay at par would be subject to an exchange charge.

The insistence on a standardized payment process enabled the Boston Clearing House to lower clearing charges dramatically — from $1.25 per check to 7 cents within a year, according to one study. The Boston experiment was soon emulated in St. Louis, Kansas City, and Detroit, and eventually by New York, and it later became a model for the Federal Reserve System.

Technology began to improve. Until the late 1890s, almost all entries were made by hand; gradually, however, practical adding machines came into general use, as did typewriters, punched card tabulators, and check-writing equipment.

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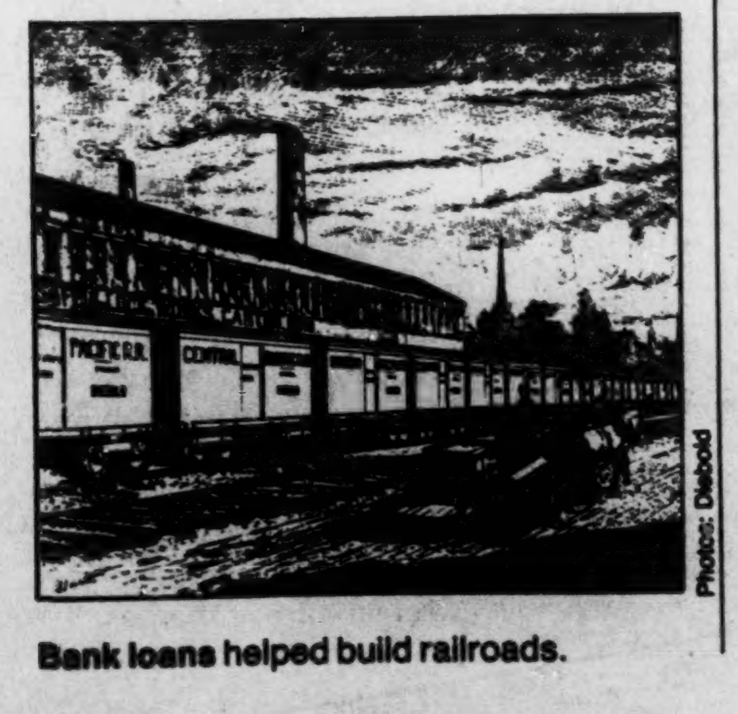
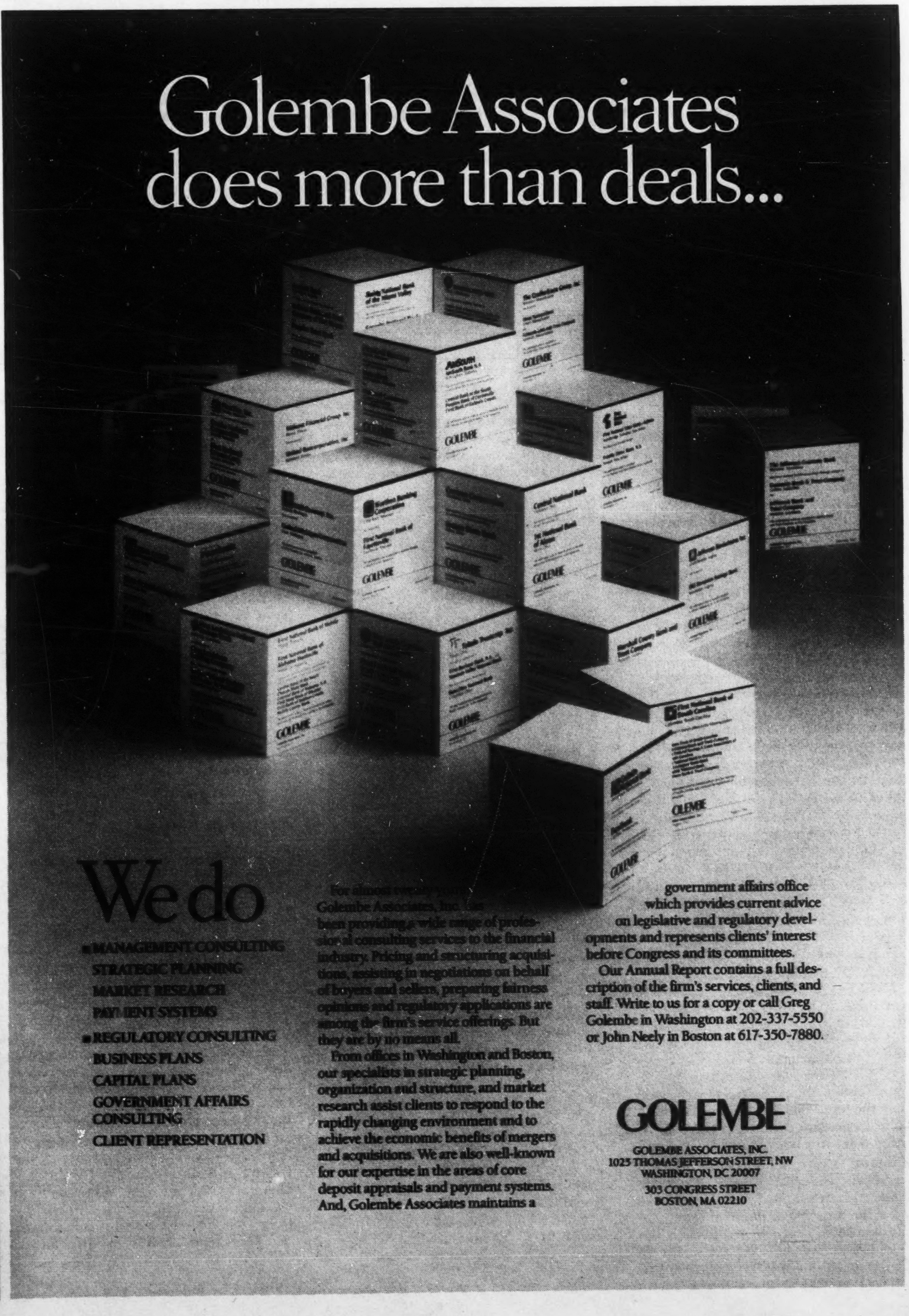


Photos: Diebold

Bank loans helped build railroads.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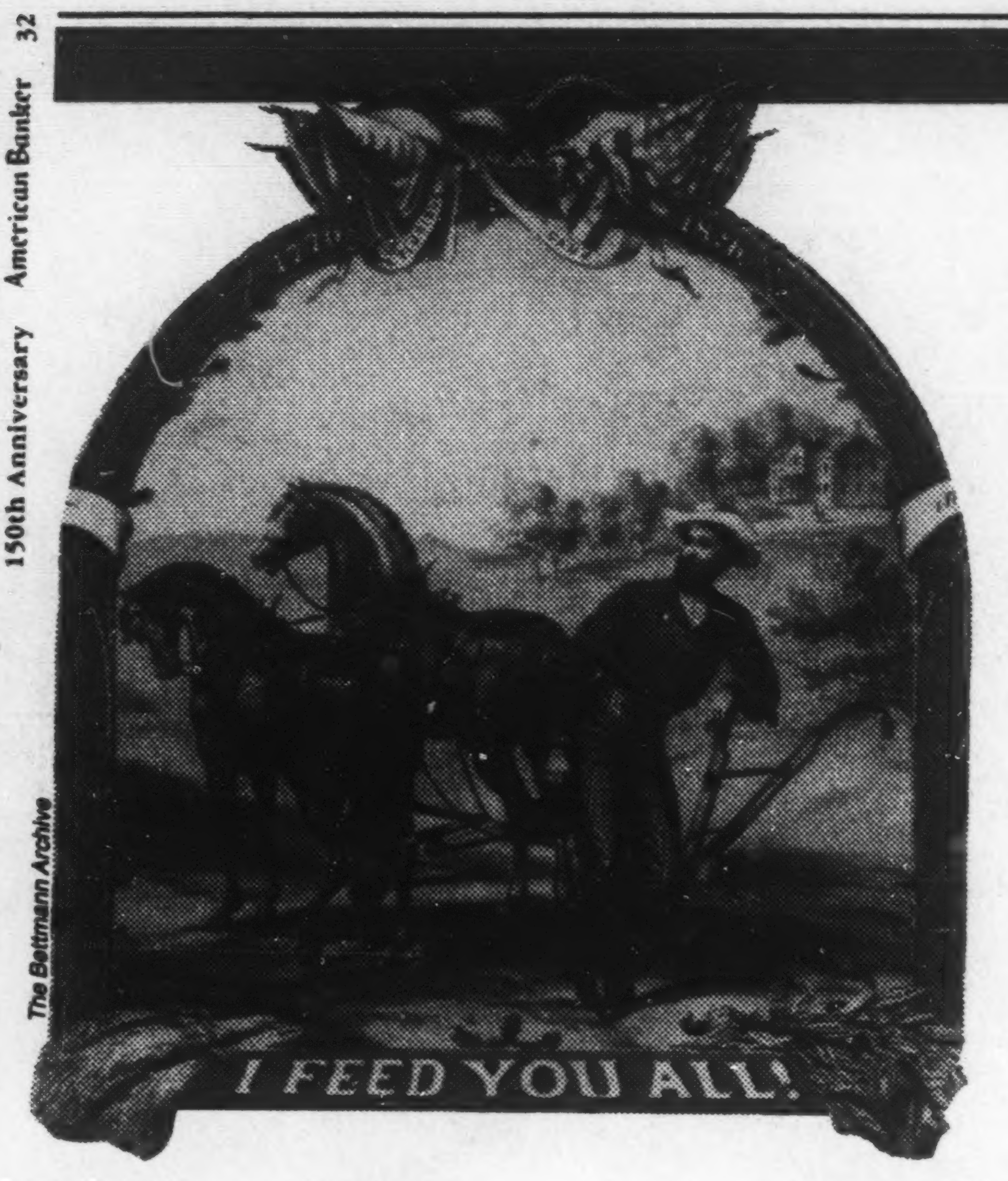

I FEED YOU ALL!

The Bettmann Archive

Team of horses and a confident farmer attest to importance of agriculture. Farm banks multiplied in late 1880s.

> *"The number of banks grew at a rate five times that of population in 1863-1913; farm towns, even if mere crossroads in a checkerboard of fields, sprouted banks like spring seedlings."*

Continued from Previous Page

Bank fees are not a modern-day phenomenon. By the early 1900s, some banks required a minimum checking balance of $100 to $200, and some charged as much as $2 a month in fees. Nor was deposit insurance a product of the 1930s. A crude insurance system began in Oklahoma in 1907, and similar systems started in other Farm Belt states. The forerunners of private insurance systems in Ohio and Maryland that collapsed in 1985, these early deposit insurance schemes were small and poorly capitalized.

Rockefeller Millions in 1907

While banking was becoming increasingly dynamic, currency remained relatively rigid, and liquidity was minimal. Given that situation, the panic of 1907 was not surprising. But it was severe, prompting help from J.P. Morgan and John D. Rockefeller; Rockefeller loaned millions to keep the stock exchange running. One economist called the 1907 crisis "probably the most extensive and prolonged breakdown of the country's credit mechanism since the establishment of the national banking system."

The crisis pointed out in graphic terms just how vulnerable the banking system was to hoarded money. The *American Banker* noted in late October that "many brokers were unable to supply themselves with funds at any rate"; with the demands for cash mounting, mere collateral was scorned.

"One of the trust companies that closed its doors had in its possession live assets amounting to over $50 million, but all of this credit was dead," the *American Banker* wrote. "It could not do the work of a single dollar in the paying teller's cage."

Through the leadership of Morgan, and with a generous dollop of government aid, the crisis passed. But it required 60 clearing houses to issue pooled loan certificates worth $256 million, 2.5 times the volume of those issued in 1893.

The next year, the Aldrich-Vreeland Act established the National Monetary Commission to study the country's monetary system and make recommendations for reform. It also authorized a national currency association of at least 10 national banks to make note issues in emergencies, and eliminated the reserve requirement for federal deposits.

Woodrow Wilson's election in 1912 was to become a major force for currency reform, which Wilson supported. By the summer of 1913, led by Rep. Carter Glass of Virginia, the movement for a government reserve system began gathering steam as part of a larger currency bill.

Legislation was drafted calling for a reserve system comprised of locally controlled reserve banks that could put high-powered government money to work in situations where banks had previously had to step in. These reserve banks would pay a 6% dividend and do for banks what banks did for their customers — hold surplus funds, handle deposits, and offer remittance facilities.

Unlike the First and Second Banks of the United States, the reserve banks would not deal directly with the public — thus avoiding the apparent impropriety of the government becoming engaged in a profit-making venture.

Compromise on 12 Banks

As the legislation began to take shape, a compromise emerged. Some had argued for reserve banks in each state, but most believed that would be too unwieldy. And creating just three or four, others felt, would take away some of the local control the system was intended to provide. So a compromise was reached on 12 district banks.

Not everyone was happy with the plan. Rep. George McClean of Connecticut complained that "the present haste to organize the banking system of this country is purely political. There is not one man in ten thousand who cares anything about the subject . . . and his ignorance in this regard is as natural and excusable as his ignorance of the Chinese language."

But the legislation passed by healthy margins in both houses. In addition to providing an unprecedented level of reserves, the Federal Reserve Act gave national banks the right to make real estate loans and exercise trust powers. And by establishing a career system for salaried examiners — providing a path for promotion and expanded responsibilities — it attracted better people and gave the banking system more effective supervision.

The *American Banker* championed the plan, saying in March that the prospect that it would be passed was "almost too good to be true." When it was eventually signed, the *American Banker* hailed it as "the second great revolution in the financial history of the United States," creating "a new system that is at once stable and flexible, and thus removes all the evils from which the country has suffered during the past 40 years." ■

How a 'One-Man Federal Reserve' Rescued The Financial Markets in the Crisis of 1907

RETURNING TO HIS palatial home on New York's Madison Avenue on Sunday, Oct. 20, 1907, J.P. Morgan soon discovered that the financial crisis that had been festering before his departure earlier that month for the Episcopal Triennial in Richmond, Va., had become worse. United Copper stock had essentially collapsed in frenetic trading the previous Friday, and rumors of overextension by the Knickerbocker Trust Co., a big New York institution, were giving Wall Street a bad case of the jitters.

A tall, stout man of 70 with a huge nose that flushed red when he was ill or angry, John Pierpont Morgan had long been a titan. His firm, J.P. Morgan & Co., founded 12 years earlier, was a major force on Wall Street, and Morgan himself had amassed an immense fortune. Like other hugely wealthy men of the Edwardian era, Mr. Morgan — a staunch Anglophile — lived lavishly, buying estates in Britain, yachts, and European art treasures for his mansion.

Mr. Morgan, who had fashioned his empire by financing the industrialization of America, saw the deteriorating financial markets of that autumn as a threat to everything he had built. For his role in the next few days, some would brand him an opportunist, others a patriot. But whatever his motives, Mr. Morgan is credited with personally saving New York's trust companies and Wall Street's major brokerage houses from going under. In the days before the Federal Reserve System, he acted, said historian Frederick Lewis Allen, "like a one-man Federal Reserve."

Mr. Morgan's influence was widely recognized. On Aug. 24, when a bearish market was growing more restive and traders increasingly perturbed, the *American Banker* noted that "the arrival of J.P. Morgan from his trip to Europe sooner than has been expected gave the hope that interests with which he was connected would receive assistance from this banker and financier."

But an upturn in September offered "a more cheerful tone," *American Banker* reported Sept. 14. Two weeks later, the newspaper deemed the financial markets "dull and featureless but essentially cheerful" — presumably on the premise that anything short of catastrophe offered some hope. A month later, however, any lingering optimism had evaporated.

Summoned to Red Room

On Monday, Oct. 21, Mr. Morgan summoned several leading New York bank presidents to the Red Room of his library. Florentine masterpieces from the Renaissance served as backdrop for the likes of George Baker of First National and James Stillman of National City as they discussed the heavy withdrawals that started at the Trust Company of America in New York and were spreading to other banks in other cities and to brokerages as well. Mr. Morgan and the bank executives broached the idea of some collective action.

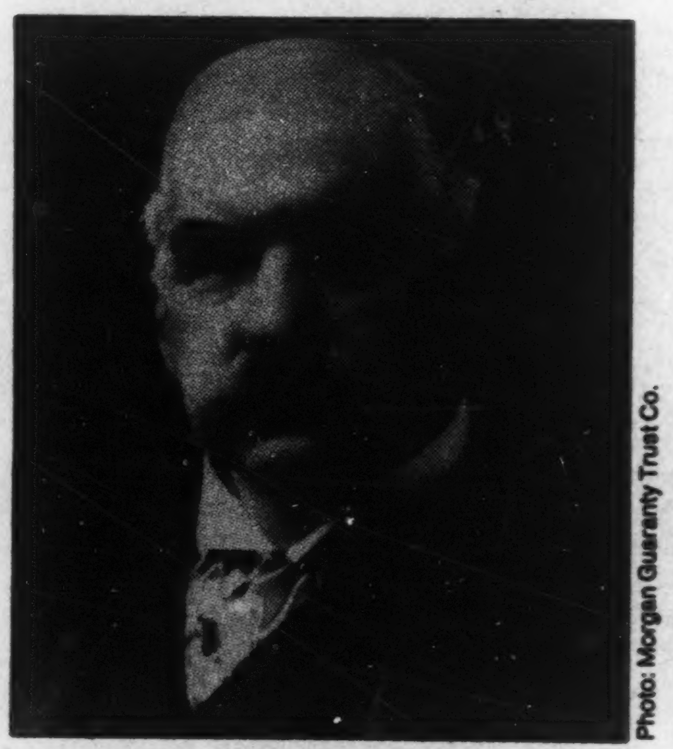


Photo: Morgan Guaranty Trust Co.

J.P. Morgan

Mr. Morgan monitored events from his office at 23 Wall Street through that day and the next. The Knickerbocker Trust Co., with about $40 million in assets, closed its doors at 12:30 Tuesday, sparking rumors that besides Trust Company of America, other trust companies — subject to fewer regulations than banks and closely tied to stock trading — were also on thin ice.

On Wednesday, Oct. 23, Mr. Morgan had decided to form a salvage fund to bolster the troubled institutions and prevent a wider run. His firm and the two big banks, First National and National City, would be the main contributors to a fund of pooled clearing house certificates, instruments that had been used to stem runs during earlier financial crises.

Then, Mr. Morgan called Treasury Secretary George B. Cortelyou, already in New York, to go over the pool plan and to ask for government help. Mr. Cortelyou told him that the problems besetting Trust Company of America were outside the government's jurisdiction, but he offered a promise of government help "through the national banks and private financial institutions, when they are united."

Meanwhile, the run on Trust Company of America continued. A frantic Oakleigh Thorne, president of Trust Company, told Mr. Morgan that the vaults would be empty by the close of business that day if withdrawals did not slacken. Mr. Morgan then convened an emergency meeting with Mr. Baker; Mr. Stillman; E.C. Converse, president of Bankers Trust; and Edwin S. Marston, head of Farmers Loan and Trust.

Mr. Morgan pledged J.P. Morgan & Co. assets to bolster Trust Company, and demanded that the others follow suit. But the bankers pleaded for time, and Mr. Morgan had to call on his bluster and his power to win them over. Trust Company was given an immediate credit of $10 million, which arrived just before the institution's assets were gone.

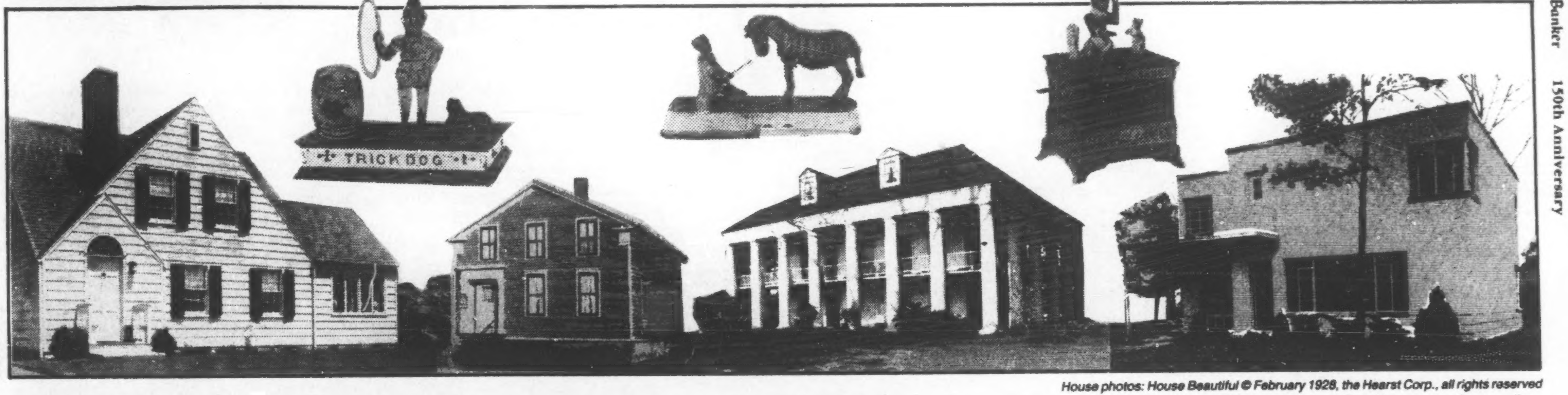
Exchange Needed Cash

Though suffering from a cold, Mr. Morgan worked through the night on the details of the salvage fund. The next noon, he was told by the president of the New York Stock Exchange that the exchange, battered by the panic selling of steel and railroad issues in recent days, was in danger of suspending operations. An immediate injection of cash was needed, the exchange executive told him.

Mr. Morgan sprang into action again, calling Secretary Cortelyou and getting a pledge of government aid to distribute as needed. He then summoned the bankers again and hammered out an agreement to put up a $25 million loan of pool money, using some of the federal guarantee funds, to the exchange at 10% interest. When news of the loan was telephoned to the trading floor, the interest rate on call money dropped from 100% to 6%, and a cheering pandemonium broke loose.

— *Jeffrey Marshall*

THRIFT HISTORY



Stanford Kay

House photos: House Beautiful © February 1928, the Hearst Corp., all rights reserved

A Thrift Is Not Just A Thrift, as Time Goes By

The mutual institution created for benefit of depositors evolved into full-service operation of the 1980s.

By Mark Basch

"TRUTH TO SAY, savings banks exercise much of the same influence upon a community that sunbeams do upon the earth, dispelling gloom and despair and giving in their place hope and happiness."

In 1916, the savings bank was celebrating its 100th birthday in the United States when James Hilton Manning, a former president of the Savings Bank Association of the State of New York, waxed poetic about the industry in a book titled "Century of American Savings Banks." And no one would argue back then that the Philadelphia Saving Fund Society, the oldest thrift institution in the country, did not exercise a strong influence on the Philadelphia community.

But today, as the American savings bank turns 170, it is unlikely that thrift industry observers still harbor those romantic notions. After all, when was the last time you saw "Meritor Financial Group" (the recently formed holding company for PSFS) and "sunbeams" in the same sentence?

Consider this passage from the *American Banker's* 100th anniversary edition in 1936:

"Continuously since its founding, the Philadelphia Saving Fund Society has been operated entirely for the benefit of its depositors. It was established for the sole purpose of receiving and investing such small sums of money as might be saved from the earnings of thrifty and industrious persons of modest means and of affording such persons the advantage of security and of interest."

Compare that to the comments of Frederick S. Hammer, chairman and chief executive officer of Meritor at the company's 1986 annual meeting:

"Our future began five years ago. In 1981, interest rates rose so significantly that PSFS incurred the first major loss in its long and distinguished history. This provided an unmistakable and dramatic signal that we could no longer remain a one-product company. At that critical juncture we had two alternatives — to be a strong niche player or become a full-service institution."

New workers helped banks grow.

PSFS opted for the full-service strategy. And that, in a nutshell, is the history of the thrift industry — beginning in the 19th century as mutual institutions operating for the benefit of their depositors and evolving into deregulated full-service financial institutions in the 1980s.

PSFS opened its doors on Dec. 2, 1816, as the first thrift institution in the United States. But the savings bank idea originated in Europe more than 200 years earlier. A Frenchman named Hugues Delestre is credited with being the first man to propose the general idea of a savings bank around 1610.

Another early advocate of the savings bank idea was English author Daniel Defoe, who suggested the organization of a savings bank in the late 17th century.

The earliest savings bank-type institution was formed in Germany in 1765, but historians recognize a "savings and friendly society" formed in Scotland in 1810 as the world's first actual savings bank. It was formed by the Rev. Henry Duncan in Ruthwell, Scotland, and opened on May 10, 1810.

By the time the first U.S. savings banks got off the ground, almost seven years later, there were 78 savings banks similar to Rev. Duncan's institution in the United Kingdom, according to Mr. Manning's book.

Three savings banks were formed in the United States in the fall of 1816, but PSFS got the jump on the other two and opened its doors first. The Bank for Savings in New York was actually formed a few days earlier, on Nov. 29, but slow legislative action prevented its opening for almost three years. The Bank for Savings finally received its charter from the state Legislature in March 1819, and opened on July 3, 1819. It was eventually acquired by the predecessor of Goldome FSB, Buffalo, N.Y.

PSFS opened without a charter in 1816, and was incorporated in 1819 under a special charter granted to it by the Pennsylvania legislature.

The first savings bank to receive a charter was the Provident Institution for Savings in Boston, which was incorporated on Dec. 13, 1816. The Provident opened for business in February 1817. It is now a subsidiary of Hartford National Corp. in Connecticut.

The first savings banks did not make mortgage loans, the principal activity of thrift institutions today. They were permitted to invest only in government bonds and bonds of their own states during their first few years of operation. It wasn't until 1830 that the Bank for Savings in New York became the first savings bank to receive authorization to make mortgage loans. It wasn't until the 1870s that the industry's investment in mortgages approached 50% of total assets.

In the 1980s, the differences between savings and loan associations and savings banks have been all but obliterated by regulatory and legislative changes. In fact, many savings and loans have converted to savings banks for no other reason than to put the word "bank" in their name as a marketing ploy. The name has nothing to do with the thrift institution's operations.

However, savings and loans and savings banks took two different evolutionary tracks before they merged into the modern thrift industry of today.

Continued on Next Page

Mark Basch is an American Banker staff reporter.

IMPORTANT DATES 1610-1982

1610 — Hugues Delestre, a Frenchman, first proposes the idea of a savings bank.

1765 — World's first savings bank-type institution is formed in Germany.

1781 — First building society is formed in Birmingham, England.

1810 — Rev. Henry Duncan forms first "modern" savings bank in Scotland.

1816 — Philadelphia Saving Fund Society, on Dec. 2, becomes first U.S. savings bank to open for business. On Dec. 13, Provident Institution for Savings in Boston becomes first savings bank to receive charter.

1830 — Bank for Savings in New York becomes first savings bank to receive permission to make mortgage loans.

1831 — Oxford-Provident Building Association of Philadelphia County, Frankford, Pa., opens as the first U.S. savings and loan.

1843 — Charleston Savings Association in South Carolina becomes the first "permanent" savings and loan.

1851 — Oriental Building Association, oldest continuously operating S&L in the country, is formed in Washington, D.C.

1880 — Mutual Home and Savings Association, Dayton, Ohio, is formed and becomes the model for future "permanent" S&Ls.

1887 — National Building and Loan Protective Union in Minnesota is formed as the first "national" savings and loan.

1897 — Collapse of Southern Building and Loan Association, Knoxville, Tenn., leads to collapse of the "national" movement.

1919 — Federal Home Loan Bank System is proposed for the first time.

1931 — President Hoover formally proposes the Federal Home Loan Bank System.

1932 — Home Loan Bank Bill passes Congress.

1933 — Home Owners' Loan Act creates Home Owners' Loan Corp. and authorizes chartering of federal S&Ls.

1934 — Federal Deposit Insurance Corp. is formed in January with 236 mutual savings banks as members, but most drop out by June. Also in June, National Housing Act creates Federal Savings and Loan Insurance Corp.

1938 — Federal National Mortgage Association is created.

1939 — U.S. Building and Loan League becomes U.S. Savings and Loan League.

1944 — Serviceman's Readjustment Act authorizes Veterans Administration-guaranteed mortgages.

1966 — Interest Rate Adjustment Act sets federal limits on deposit interest rates.

1968 — Housing and Urban Development Act broadens S&L powers and splits Fannie Mae into two agencies — one to be called Government National Mortgage Association.

1970 — Emergency Home Finance Act creates Federal Home Loan Mortgage Corp.

1972 — Negotiated order of withdrawal, or NOW, accounts are offered for the first time, in Massachusetts and New Hampshire.

1974 — Congress allows limited number of conversions of mutual S&Ls to stock S&Ls.

1978 — Financial Institutions Regulatory and Interest Rate Control Act authorizes federal charters for savings banks.

1980 — Depository Institutions Deregulation and Monetary Control Act.

1982 — Garn-St Germain Depository Institutions Act ends most distinctions between savings and loans and savings banks.

PSFS, First US Savings Bank, Inspired by British Examples

"TO PROMOTE economy and the practice of saving amongst the poor and laboring classes of the community — to assist them in the accumulation of property that they may possess the means of support during sickness or old age — and to render them in a great degree independent of the bounty of others — is a duty incumbent upon all, who by their services or advice have it in their power to effect so desirable an end," according to an address to the public by the Philadelphia Saving Fund Society in December 1816.

"Of the charitable institutions that have had for their object the amelioration of the human condition, none perhaps deserve higher commendation than those which, under the title of Provident Societies or Savings Banks, have lately been established throughout the kingdom of Great Britain."

The first directors of the United State's first savings bank prepared this address as a sort of preamble to PSFS' articles of association to explain the savings bank principle to the people of Philadelphia "in the confident expectation that its motives may be properly estimated and that it may meet with the general support of the community.

"The office of the Society, which first commenced its operations by the receipt of deposits on Monday the 2nd, will be open every Monday morning from 9 to 11 o'clock for the deposit of money, and on every Thursday during the same hours, for the payment of such sums as may be withdrawn, at No. 22 Sixth Street, between Market and Chestnut Streets."

Twelve Philadelphians, under the direction of Condy Raguet, met in late November 1816 to form a "society" based on the savings banks that had been recently established in Great Britain. Although it did not have a charter (it wasn't incorporated until 1819), PSFS opened for business on Dec. 2, 1816, the first savings bank in the U.S. to open its doors.

According to the articles of association, "The Philadelphia Saving Fund Society is established for the sole purpose of receiving and investing in government securities, or other substantial public stock, such small sums as may be saved from the earnings of tradesmen, mechanics, laborers, servants, and others; and of affording to industrious persons the two-fold advantage of security and interest."

Deposits would bear an interest rate of 4.8%, but "no sum less than one dollar shall be received as a deposit; and no interest shall be allowed on any payments, until they amount to the sum of five dollars."

The first depositor in PSFS (and the first U.S. thrift depositor) was a man named Curtis Roberts, whose listed address was the same as Mr. Raguet's. Mr. Roberts was described as a waiter and a laborer in PSFS directories of the period. "The natural inference is that at the time of opening the account, he was a domestic in Mr. Raguet's home," according to a 1916 book titled "A History of the Philadelphia Saving Fund Society," by James M. Willcox.

Mr. Roberts' passbook shows that he deposited $5 in the Society on Dec. 2, deposited another $5 on April 21, 1817, and was credited with his first 40 cents interest in January 1818.

Few people need to be told today how successful the first U.S. savings bank became. From that first $5 in 1816, PSFS grew to $64,263 in deposits by 1820, passed the $1 million mark in the mid-1830s, and reached $130.9 million by its 100th anniversary in 1916.

Today, as it has been throughout the history of the thrift industry, PSFS is still one of the largest thrifts in the nation with about $13 billion in deposits.

— Mark Basch

Continued from Previous Page

While savings banks were formed to encourage thrift among depositors, savings and loans began as "building societies" that were established to help members build homes.

Like savings banks, savings and loans trace their origin to Europe. The first building society was formed in Birmingham, England, in 1781.

In these building societies, the members would contribute a certain amount of money to the society every month. When enough money was collected for one of the members to build a house, a loan was made. In some cases, a monthly drawing would be held to determine which member would get the loan.

The process would be repeated until every member received a loan and repaid it. Then the society would go out of existence.

There were already 36 savings banks in the U.S. by the time the first American savings and loan was formed on Jan. 3, 1831 — the Oxford Provident Building Association of Philadelphia County, Frankford, Pa.

The Oxford Provident operated in a similar manner as the English building society. It was a terminating society, meaning that it would disappear when all its members had received and paid back a loan.

The spread of building and loans (early savings and loans were called building and loans) started slowly — the second institution was not formed until five years later in Brooklyn, N.Y. But the movement spread rapidly across the country in the middle of the 19th century.

The term "savings and loan" came into use in 1850 by an act of the Connecticut state government. And by 1890, every state in the nation had at least one savings and loan association. The savings banks were confined mainly to the Northeast.

As the savings and loan movement grew, two other types of savings and loans had developed in addition to the terminating society. One was the serial plan, which was developed in the 1850s. Under the serial plan, an association issued several series of shares at regular intervals, rather than issuing one series when the association was organized. With this method, new members could be brought in to the association when a new series of shares was issued. Each series was itself a terminating unit, however.

The serial societies lasted well into the 20th century. In fact, it was the most common type of savings and loan in states like New Jersey, Pennsylvania, and Massachusetts up until the Great Depression.

The third type of savings and loan society was the permanent plan, which originated with the Charleston Savings Association in South Carolina in 1843. But the idea of a permanent association

Who's the ATM

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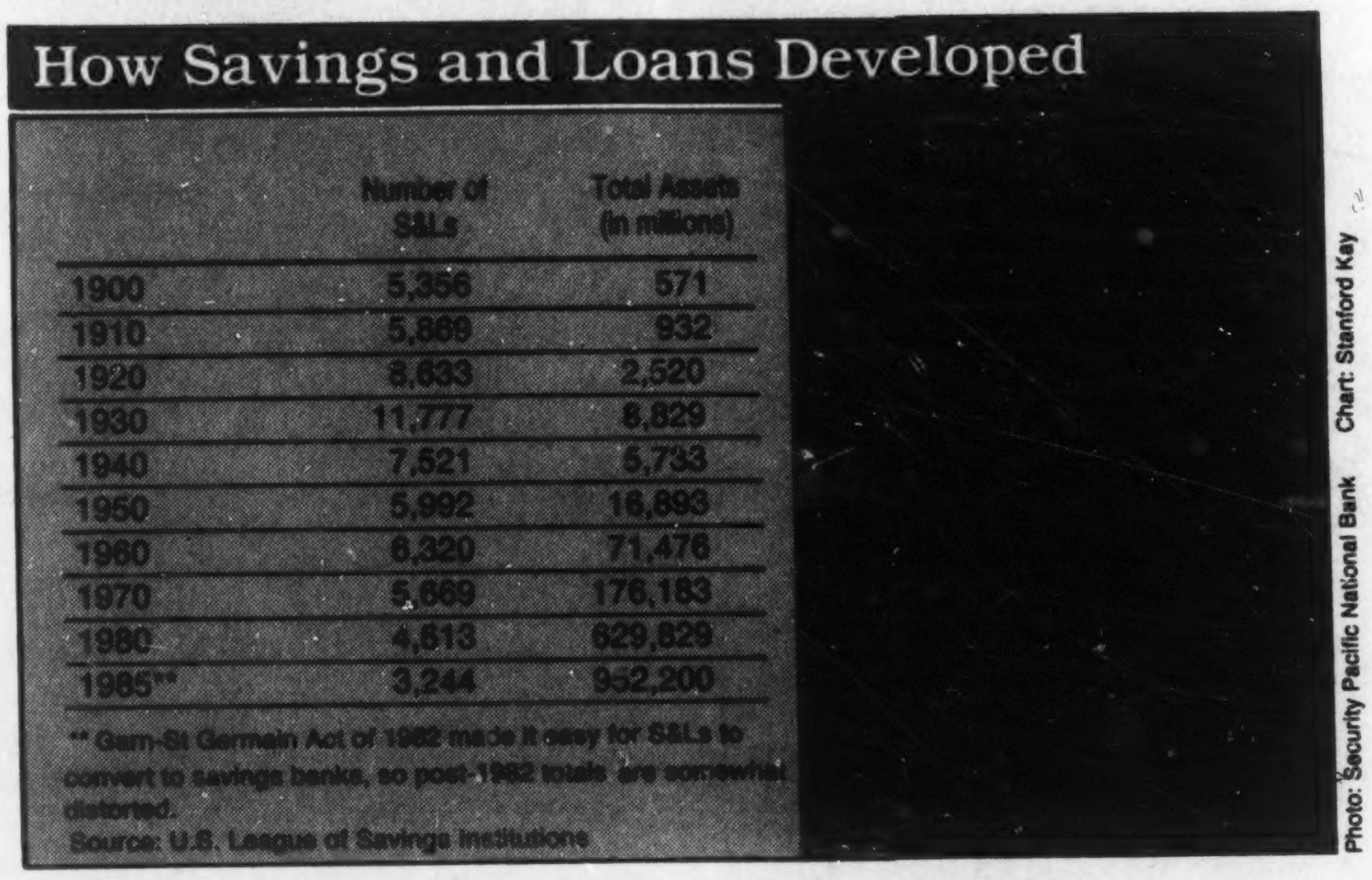
was not popularized until the formation of the Mutual Home and Savings Association of Dayton, Ohio, around 1880. For that reason, the permanent plan is also known as the "Dayton Plan."

The major feature of the Dayton Plan was the issuance of shares at any time, meaning that members could deposit or borrow money at any time instead of at the intervals prescribed by the association. They could also withdraw their money without the penalties imposed by the terminating and serial societies.

As the building and loan industry grew in the 19th century, it was not considered a serious threat to the savings bank business. "From 1816 to about 1890, no competitor of any consequence was disturbing the savings bank," wrote Frank P. Bennett Jr. in a 1924 book called "The Story of the Mutual Savings Bank."

The mutual savings bank was easily the dominant type of financial institution in terms of savings deposits held during that time period. In 1880, 87.5% of all U.S. savings deposits were in savings banks, compared with only 0.8% in savings and loans. Commercial banks held 11.7%.

Over the next 10 years, those patterns shifted somewhat. Savings banks still had most of the savings deposits, with 73.7% in 1890, but savings and loans made a big gain to 10%. Commercial banks' share rose to 16.4%.



How Savings and Loans Developed

	Number of S&Ls	Total Assets (in millions)
1900	5,356	571
1910	5,869	932
1920	8,633	2,520
1930	11,777	8,829
1940	7,521	5,733
1950	5,992	16,893
1960	6,320	71,476
1970	5,669	176,183
1980	4,613	629,829
1985**	3,244	952,200

** Garn-St Germain Act of 1982 made it easy for S&Ls to convert to savings banks, so post-1982 totals are somewhat distorted.

Source: U.S. League of Savings Institutions

Photo: Security Pacific National Bank Chart: Stanford Kay

The earliest figures compiled by the U.S. League of Savings Institutions, organized as the United States League of Building and Loan Associations in 1892, show that there were 5,598 savings and loans in the country in 1893 with assets of about $473 million. Figures from Federal Reserve Board research show that there were 638 mutual savings banks in the U.S. in 1896 with $1.9 billion in assets.

The savings and loan figures do not include the so-called "nationals," savings and loans that were organized in the 1880s mostly as speculative ventures. There were about 240 nationals in 1893.

The movement began in Minnesota in 1887 with the formation of the National Building and Loan Protective Union. These associations solicited deposits on a national basis through newspaper advertisements, offering depositors a high return on their investment. In many cases (but not all), these were fraudulent schemes and most of them disappeared by the depression of 1893 to 1897.

The final downfall of the nationals was sparked by the 1897 collapse of the Southern Building and Loan Association, a large national in Knoxville, Tenn. It led to the failure of other southern nationals, and the nationals just about disappeared altogether by the end of that year.

The period from the 1890s to the Great Depression was one of strong growth for both segments of the thrift industry. Assets of savings banks grew from $1.9 billion in 1896 to $10.2 billion by 1930. Assets of savings and loans rose from $473 million in 1893 to $8.8 billion in 1930.

On the eve of the stock market crash in October 1929, the biggest concern of the savings banks was competition from building and loans. A survey by the savings bank division of the American Bankers Association revealed that 129 of 274 savings banks regarded the building and loan association as the most serious competition in the future development of the savings business.

"No doubt, the building and loan associations are being used as depositories for savings by many individuals who would ordinarily lodge their accumulations in a regular savings bank," the *American Banker* reported on Oct. 9, 1929. "Many such do not contemplate becoming borrowers. They are attracted by the comparatively high security which they [building and loans] offer, and the prospect of a higher return on deposits.

"Perhaps the day may come when the savings bank will be enabled to offer a service to home builders and so meet the building and loan associations on their own terms."

Surviving the Depression

The savings bank industry did not suffer the large number of failures that commercial banks did during the Great Depression, as the public retained its confidence in those institutions.

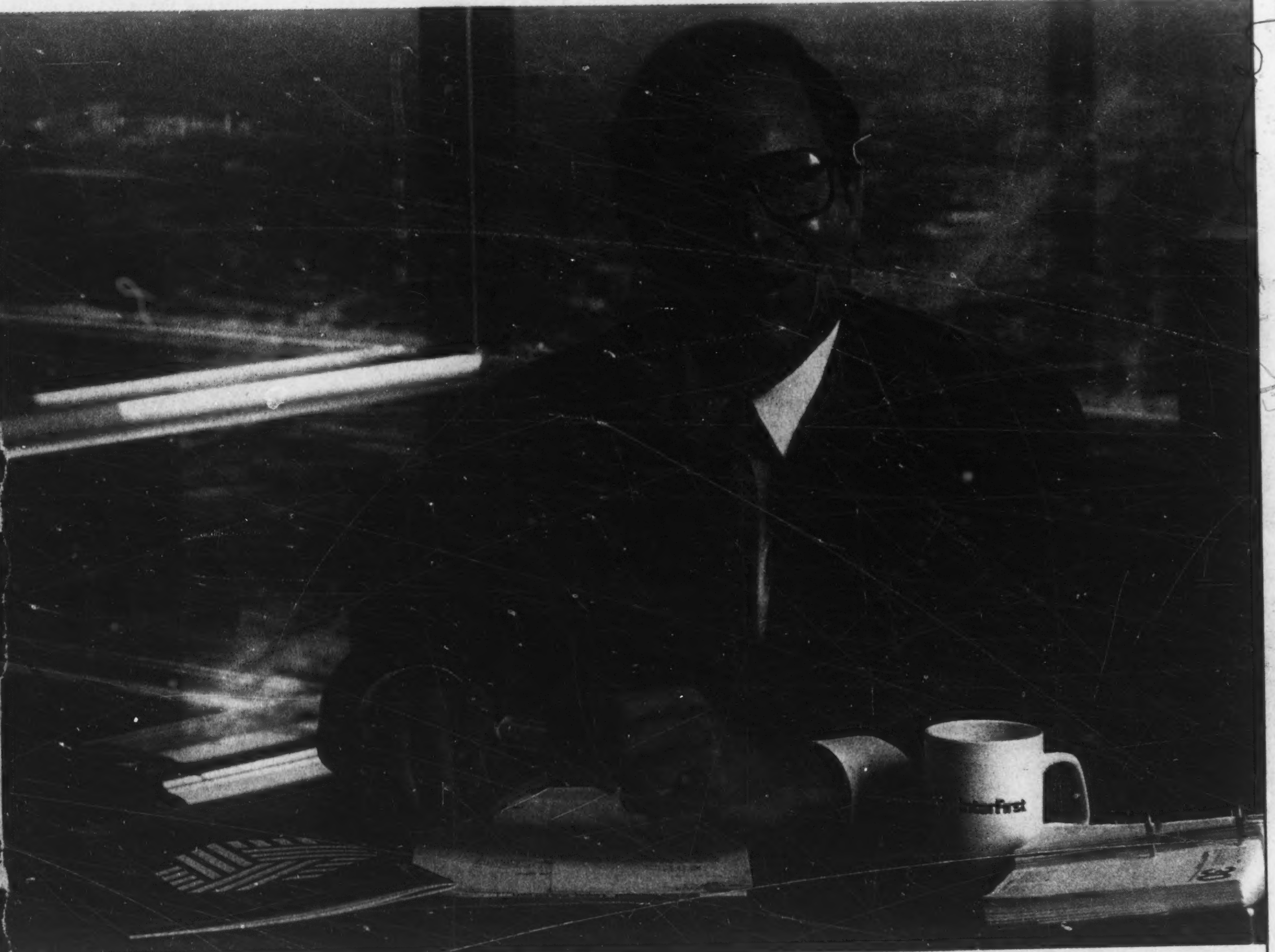
"The mutual savings banks are governed by wise laws and guided by a great tradition, which are good reasons why the savings entrusted to their care remain secure," wrote Philip A. Benson, president of the National Association of Mutual Savings Banks, in 1934.

But the Depression's effect on the housing industry produced potential problems for the savings and loan industry, so the idea of a central bank for housing lenders, first discussed in 1919, was revived in the early 1930s. The plan had been tabled by the housing boom of the 1920s.

President Herbert Hoover formally proposed the creation of 12 home loan discount banks in November 1931 as a way to stimulate home construction. These banks, under the direction of a Federal Home Loan Board, would "make no initial or direct mortgages," the President said, but would "loan only upon the obligations of the loaning institutions secured by mortgage loans as collateral so as to assure and

Continued on Page 75

network leader?



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How Mr. Rich Bought a House

THE OLDEST monument to the American savings and loan industry is a little two-story house that still stands in Philadelphia about 160 years after it was built. The house, which was bought by a man named Comly Rich in 1831, was the first house to be purchased with a mortgage loan from a savings and loan institution.

Mr. Rich purchased the home with the first loan made by the nation's first savings and loan — the Oxford Provident Building Association of Philadelphia County, in Frankford, Pa. (Frankford has since become a part of the city of Philadelphia.)

Oxford Provident was formed by 37 citizens of Frankford on Jan. 3, 1831. The association was modeled after the British building societies, in which members made monthly payments to the society, and when enough money was accumulated to purchase a home, a loan was made to one of the members. When all members had received and paid back a loan, the society would terminate.

Portions of the Oxford Provident's constitution show how the early U.S. building and loans were organized:

- "Each member to pay $5 per share of stock at the beginning of the month and $3 a month thereafter;"
- "Trustees to give notice at a stated meeting the month before there is enough money for a loan of $500. Loans to be used to buy or build dwelling house only. Members, wishing to borrow, to write on a ballot their names and premium they are willing to give. Highest premium gets the loan;"
- "Members can withdraw from association on one month's notice. The amount due them would consist of initiation fee and contributions paid in minus 5%;"
- "No member to hold more than five shares;"
- "No loan on a property farther than five miles from the Frankford markethouse;"
- "Association to stay in existence until every member has had chance to get one house for each share of stock held in the association; balance in treasury to be divided equally among the members, according to number of shares held."

The original bylaws were amended later in the year to allow members to sell their shares and to let new members in if the existing members voted them in.

Oxford Provident received bids for its first home loan in April 1831. Comly Rich, described in various sources as a comb maker or a lamplighter, offered a $10 premium and was awarded the loan to purchase a house that had been built several years earlier. He actually received the first part of his loan, $375, in February of the following year. He was given an additional $125 two years later to complete the loan.

Ironically, the first man to receive a mortgage from a savings and loan was also the first delinquent borrower. Mr. Rich had trouble keeping up the payments almost from the start, and he gave up the house in 1836.

Oxford Provident terminated 10 years after its formation, but a second Oxford Provident Building Association was formed in its place with 79 members, including eight women. A third Oxford Provident was organized in 1852, but unlike the first two terminating societies, the third one was a serial association, issuing several series of shares.

The eventual fate of the third Oxford Provident is unclear. Some thrift industry officials believe it may have been merged into another institution, but the only thing known for sure is that it no longer exists today.

The oldest continuously operating savings and loan in the country is the OBA Federal Savings and Loan Association, Washington, D.C. It was organized as the Oriental Building Association on April 3, 1861.

The Oriental Building Association was organized as a serial association, and it was still operating as a serial association during World War II. With the swelling of savings during the war and the resulting large amount of funds available for the post-war housing boom, the *sixth Oriental Building Association* became a permanent association at the end of World War II.

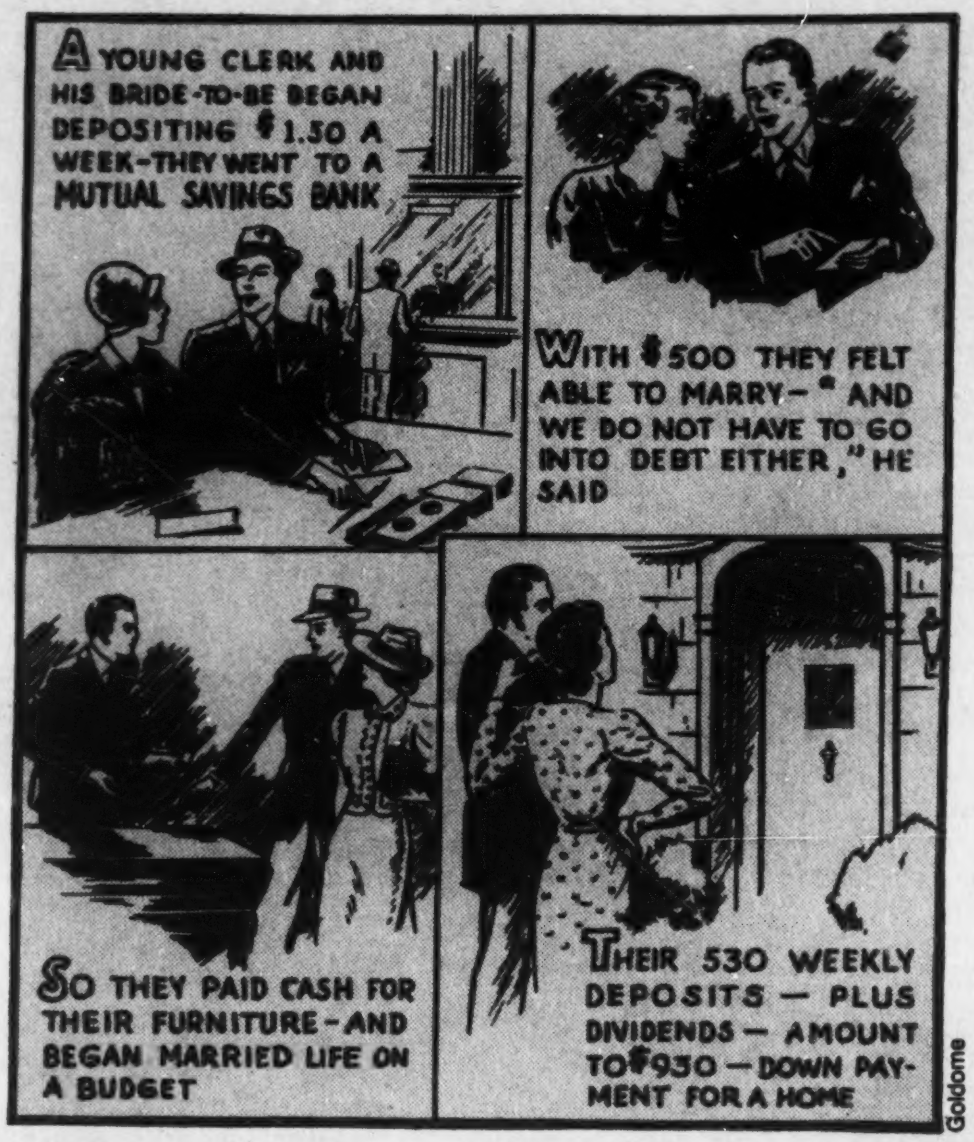
The 125-year-old institution, which converted to a federal charter and changed its name in 1975, has remained a relatively small, community-oriented savings and loan. It has grown from a $151,198-asset thrift in 1886 to a $29.4 million-asset thrift at its 100th anniversary and to $92.5 million in assets in the spring of 1986.

Current OBA chairman W.B. Tascher said that the thrift hasn't had a foreclosure since 1970. "We put the emphasis on high quality," he said. "We've been very, very careful."

— Mark Basch

ROMANCE IN SAVING!

REAL LIFE STORIES OF MUTUAL SAVINGS BANK DEPOSITORS


A YOUNG CLERK AND HIS BRIDE-TO-BE BEGAN DEPOSITING $1.50 A WEEK—THEY WENT TO A MUTUAL SAVINGS BANK
WITH $500 THEY FELT ABLE TO MARRY— " AND WE DO NOT HAVE TO GO INTO DEBT EITHER," HE SAID
SO THEY PAID CASH FOR THEIR FURNITURE—AND BEGAN MARRIED LIFE ON A BUDGET
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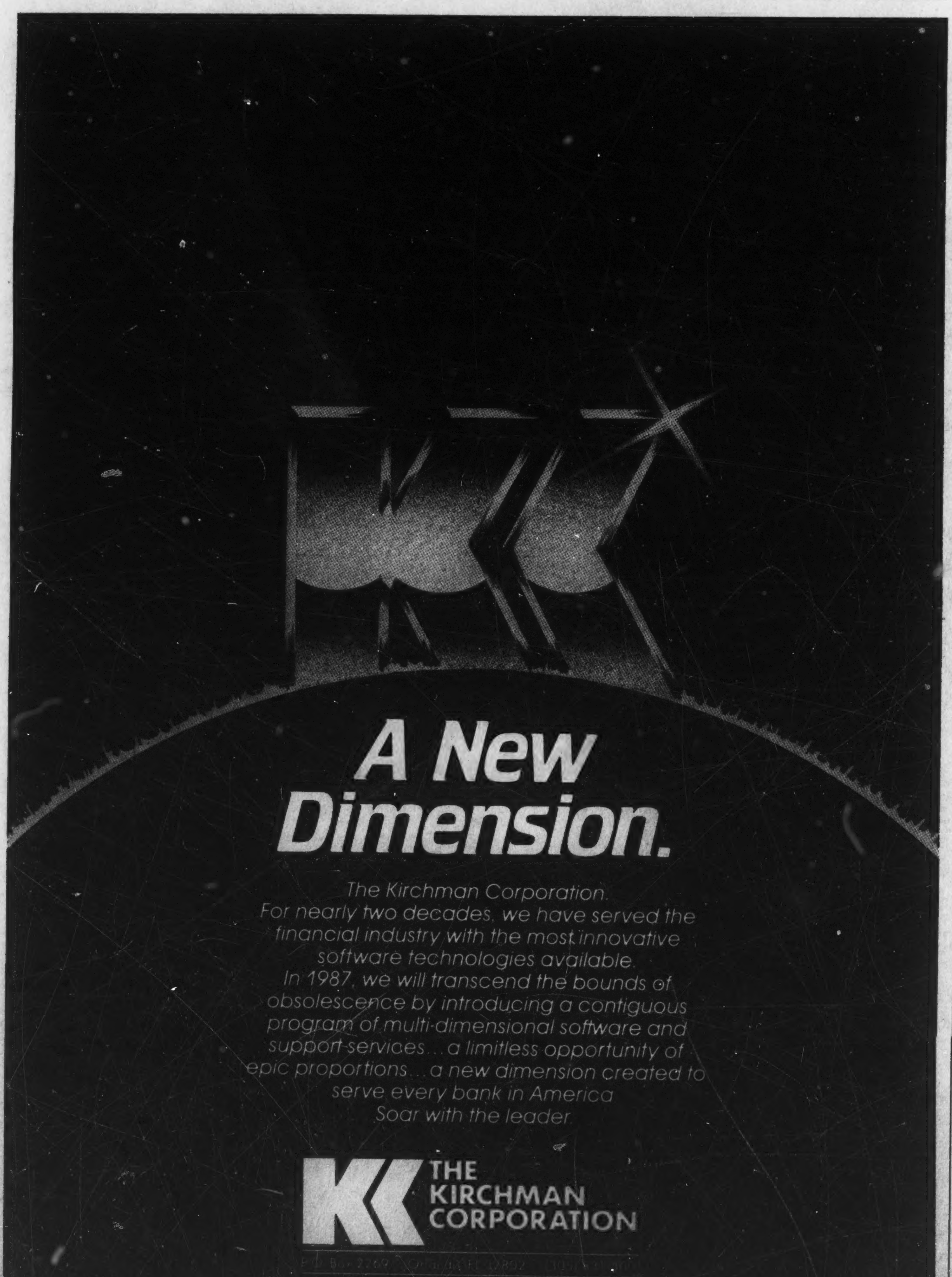
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Continued from Page 73

expand the functioning of such institutions."

Mr. Hoover outlined four purposes for the home loan banks:

- "Relieving the financial strain upon sound building and loan associations, savings banks, deposit banks, and farm loan banks that have been giving credit through the medium of small mortgage loans upon urban and farm mortgages."
- "To put the various types of institutions loaning on mortgages in a position to assist in the revival of home construction in many parts of the country and with its resultant increase in employment."
- "To safeguard against the repetition of such experiences [the drying up of the housing market] in the future."
- "For the long-view purpose of strengthening such institutions in the promotion of home ownership."

The President reiterated the need for a home loan bank system in his State of the Union address a month later. "I recommend the establishment of a system of home loan discount banks as the necessary companion in our financial structure of the Federal Reserve banks and the Federal Land banks," he said.

The Home Loan Bank Bill

The Home Loan Bank Bill was passed by Congress in July 1933. It called for the creation of eight to 12 regional banks under the supervision of the Federal Home Loan Bank Board. Membership would be open to building and loans, savings banks, cooperative banks, homestead associations, trust companies, state banks, and national banks having savings deposits.

Members would have to purchase shares in the Federal Home Loan Bank up to 1% of the amount of home mortgages they held. Members could borrow from the bank by depositing mortgages for collateral, with no mortgage of more than $20,000 accepted and no loan by the Federal Home Loan Bank exceeding 40% of the value of property behind the mortgage deposited.

The 12 district banks were first placed in cities that did not have Federal Reserve district banks. For example, instead of New York, the second district bank was placed in Newark, N.J., and instead of Chicago, the seventh district bank was placed in Evanston, Ill.

The thrift industry did not exactly embrace the Federal Home Loan Bank system with open arms. Both mutual savings banks and savings and loans in New York expressed strong opposition.

"The mutuals object particularly to the provisions of the Home Loan Bank Act which make each Home Loan Bank jointly liable for the liabilities of all the Home Loan Banks in the system," the *American Banker* reported. "The local mutual savings banks will not participate with their funds in any bank which is liable for losses outside of the state."

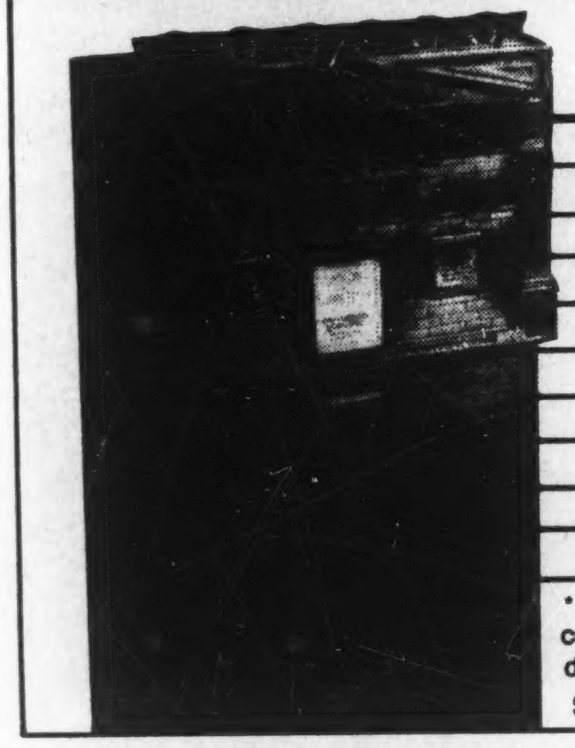
The New York mutuals had set up a mortgage liquidity fund to assist each other in times of trouble, and also had access to the Reconstruction Finance Corp. if necessary, the *American Banker* said. "Under the circumstances, the savings banks do not need the Home Loan Bank and they will not be inclined to become members so long as the assets they must post for membership are liable to be used outside of the state in making good on the losses of other proposed home loan banks."

In addition to the objections of the savings banks, savings and loans added their view that "the Home Loan Bank System is absolutely unsound in principle," the *American Banker* reported.

Membership grew slowly, with only 118 institutions joining by January 1933. But membership jumped to 3,500 by 1936, according to a statement of purpose made by the Federal Home Loan Bank Board in May 1936.

"Although savings banks and life insurance companies are eligible for membership in the Federal Home Loan Bank System, as well as building and loan associations, the membership at present is mostly of the building and loan type, which includes building and loan associations, cooperative banks, homestead associations and savings and loan associations," the document said.

The Growth of Savings Banks



	Number of savings banks	Total Assets (in millions)
1900	626	2,328
1910	637	3,598
1920	618	5,586
1930	594	10,164
1940	542	11,925
1950	530	22,252
1960	515	40,571
1970	494	78,995
1980	463	171,564
1985**	659	325,700

* Garn-St Germain Act of 1982 made it easy for S&Ls to convert to savings banks, so post-1982 totals are somewhat distorted.

Source: Federal Reserve Board; U.S. League of Savings Institutions

Photo: Long Island Savings Bank Chart: Stanford Kay

The mutual savings banks did not join the Federal Home Loan Bank System, but many of them did join the Federal Deposit Insurance Corp. when the bank deposit insurance agency was formed as a temporary fund in January 1934.

The issue of whether or not to join the FDIC sparked great debate among savings banks in the fall of 1933. Some savings bankers felt they would be forced to join the insurance agency as part of a Roosevelt administration plan to create a unified federal banking system. Mr. Benson, the president of the National Association of Mutual Savings Banks, said in October 1933 that a majority of mutual savings banks were opposed to membership in the FDIC and were waiting to see if they would be forced to join.

States with large numbers of savings banks — like New York, Massachusetts, and Connecticut — already had in place or had plans for some form of state insurance fund for savings banks.

"Hence the mutual bankers from these states ask why they should place themselves under federal control when they have themselves insured their own deposits probably just as effectually as the federal government could

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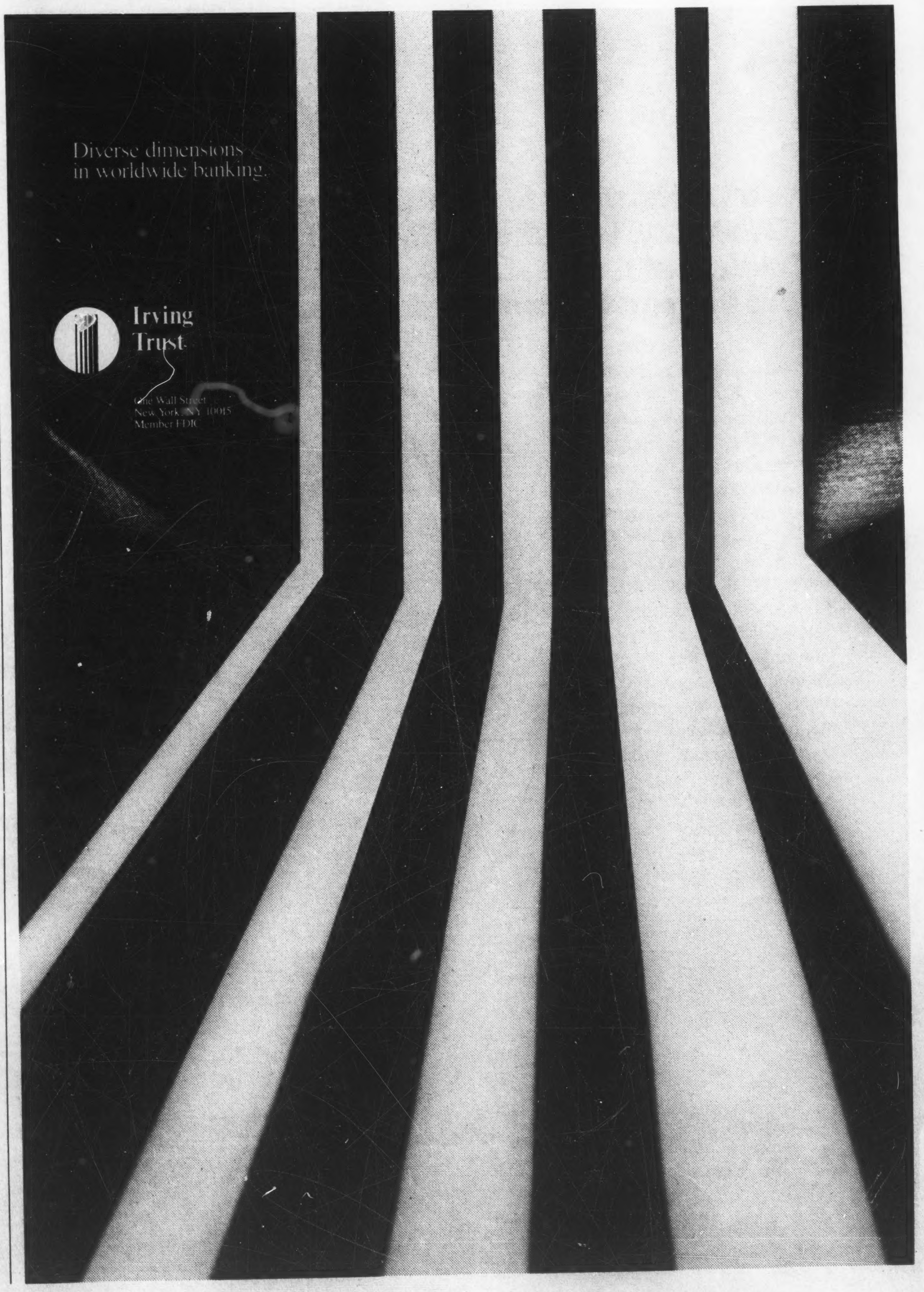

Elevated trains, rumbling past the Bowery Savings Bank, New York, circa 1903

Photo: Bowery Savings Bank

Continued from Previous Page

hope to do," the *American Banker* reported. "And especially since they have done it under non-political auspices, and without liability for losses in less maturely banked states."

But by November, the New York savings banks decided to join the FDIC with the hope that changes would be made in legislation to make the FDIC better serve the mutuals.

"The consensus of opinion among the savings bankers is still strongly against the principle of deposit insurance as a permanent solution to the nation's banking problems," said Henry R. Kinsey, president of the Savings Banks Association of New York, on Nov. 4, 1933. "We are planning to cooperate with the recovery program of the government along the only lines now open to us, but we are dead against deposit insurance as a permanent policy and hope to cooperate with the Administration and with leaders in Congress in working out a better plan.

"Mutual savings banks differ from other types of banks in nature and structure and our status calls for special methods of treatment," he said. "The necessary haste with which the Banking Act of 1933 was framed made such consideration impracticable and we have every confidence that mature attention will enable Congress to take cognizance of our distinctive position."

On Jan. 1, 1934, 236 mutual savings banks joined the FDIC, but none of the savings banks from Connecticut, Massachusetts, New Hampshire, and Rhode Island joined.

A Fund for Mutuals

But six months later, after Congress had passed an extension for the FDIC, only 66 savings banks remained in the fund, representing 11.6% of the country's savings banks. With about 13,700 commercial banks in the fund, the savings bank total represented only one-half of 1% of all institutions in the FDIC.

James D. Garrett, president of the Central Savings Bank of Baltimore, explained why his institution and other savings banks dropped out of the FDIC in July 1934:

"The associated mutual savings banks of Baltimore entered the temporary fund of the Federal Deposit Insurance Corp. last January in order to help stabilize the general banking situation. That purpose has been accomplished, and as temporary membership only was contemplated, they are now voluntarily withdrawing from the insurance fund."

The FDIC extension act passed in June 1934 included a provision that the FDIC directors could set up a separate "fund for mutuals" that would keep the savings banks in the FDIC, albeit with a fund separate from the one for commercial banks. The major difference between the two funds would be that the mutuals' fund would insure deposits up to $2,500, while the commercial bank fund would insure deposits up to $5,000.

The *American Banker* reported that some Washington officials felt that through the FDIC, "a new nationwide solidarity of the mutual savings bank idea can be created which will even bring the Massachusetts and New Hampshire mutuals into the one fold [and] could serve as a springboard from which a national mutual savings bank system can be developed."

"The mutuals on the other hand appear somewhat chafed under the prospect of FDIC regulation and eventual mandatory Federal Reserve Bank membership and regulation," it said. "That this regulation may be dictated by the interests of commercial banks rather than by their special interests seems a reasonable apprehension, and it may be that much more recognition of their special case will be necessary by Congress before they can be persuaded that their participation in federal banking unification will not mean serious subordination of their form of banking service."

Some people pointed out that, during the Depression, many depositors shifted their money from commercial banks to savings banks because savings banks were not failing, but that competitive advantage for savings banks was lost after the FDIC was organized.

"In the next depression, since deposits in commercials will be insured under the auspices of the FDIC, there is not likely to be the same shift of deposits from commercials to mutuals which there was during 1930-32," the *American Banker* said.

The savings banks basically stayed away from the FDIC until the middle of World War II. In the second half of 1943, 122 mutuals joined the FDIC to increase savings bank membership in the insurance fund to 184.

Federal Regulation of S&Ls

While the mutual savings bank industry managed to avoid federal regulation during the 1930s, more federal legislation affecting savings and loans was passed in the two years following the establishment of the Federal Home Loan Bank System.

The first piece of legislation, passed June 13, 1933, was the Home Owners' Loan Act. The act's main purpose was the establishment of "a mortgage distress relief agency to halt the ruinous deflation of real estate and irretriev-

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Some of the Oldest Thrift Institutions in the United States

1816	**PSFS, Philadelphia** (formerly Philadelphia Saving Fund Society); **Provident Institution for Savings**
1818	**Savings Bank of Baltimore** (formerly Bank of Baltimore)
1819	**Society for Savings, Hartford, Conn.; Goldome FSB, Buffalo, N.Y.** (formerly New York Bank for Savings); **Savings Bank of Newport, R.I.**
1823	**Portsmouth Savings Bank, N.H.**
1827	**Saco & Biddeford Savings Institution, Me.**
1832	**Wilmington Savings Bank Society**
1834	**Northeast Savings FA, Schenectady, N.Y.** (formerly Schenectady Savings Bank); **Bowery Savings Bank, New York; Cambridge Savings Bank**
1861	**Franklin Savings & Loan Assn., Salem, N.J.**
1866	**Home Unity Savings & Loan Assn., Philadelphia**
1869	**Laurel Federal Savings Bank, Md.**
1870	**Pawling Savings Bank, N.Y.**
1871	**Ottawa Federal Savings & Loan Assn., Ill.; First Border Savings Bank, Piqua, Ohio**
1881	**Mutual Savings & Loan Association, Charlotte, N.C.**
1885	**Great American First Savings Bank, San Diego** (successor of San Diego Building & Loan Association); **Citizens Savings & Loan Association, San Francisco; First Federal Savings Bank of Colorado, Denver; United Savings & Loan Association, Sheboygan**
1887	**Cullman Savings & Loan Association, Ala.; Homestead Savings FS&LA, San Francisco; Spratt Savings & Loan Association, Chester, S.C.**
1889	**Home Savings of America FA, Irwindale, Calif.** (formerly Home Savings of America); **Far West Savings & Loan Association, Newport, Calif.; First Mutual Savings Association of Florida, Pensacola; Franklin Savings Association, Ottawa, Kan.; Detroit & Northern Savings FA, Hancock, Mich.** (formerly Detroit & Northern Savings)
1890	**Eureka Federal Savings & Loan Assn., San Carlos, Calif.; Great Lakes Federal S&L Association, Ann Arbor, Mich.; Bankers Federal Savings & Loan Association, New York**
1891	**Heritage Savings & Loan Assn., Inc., Manchester, Conn.; Newport News Savings & Loan Association, Va.**
1892	**Central Jersey Savings & Loan Assn., E. Brunswick, N.J.** (formerly South River Building & Loan Assn.); **ComFed Savings Bank, Lowell, Mass.** (formerly First Federal Savings & Loan Assn.)
1893	**Farm & Home Savings Association, Nevada, Mo.**
1894	**Atlantic Permanent Federal S&L Association, Norfolk, Va.** (formerly Atlantic Permanent Building & Loan Assn.)
1898	**Home Federal Savings Bank, Hagerstown, Md.; Continental Federal Savings & Loan Assn., Oklahoma City**
1901	**Liberty Federal Savings Bank, Philadelphia** (formerly Lithuanian Building & Loan Association)
1902	**North Carolina Federal Savings & Loan Assn., Charlotte**
1905	**Cartersville Federal Savings Bank of Georgia**
1907	**Columbia Federal Savings & Loan Assn., Washington, D.C.**
1908	**Local Federal Savings & Loan Association, Oklahoma City** (formerly Local Building & Loan Association)

Based on available information from American Banker surveys and state banking departments.

Compiled by Kenneth J. Hicks

able loss of their properties for hundreds of thousands of helpless families through foreclosure or tax sale," the Bank Board said.

The Home Owners' Loan Corp. refinanced about $3.5 billion in mortgages during the 1930s, doing most of its work in its first three years of existence. "The task of the Home Owners' Loan Corporation has now been practically completed throughout the United States," the Bank Board said in 1936, "paving the way for private thrift and home finance to resume their traditional function more safely than ever before."

The Home Owners' Loan Corp. was liquidated in May 1951.

Another provision hidden in the Home Owners' Loan Act resulted in the creation of federal savings and loan associations chartered by the Bank Board. The Bank Board noted that only 1,016 of the 3,072 counties in the country were served by mortgage lending institutions at the time. "Federal associations were authorized both to serve neglected communities and to incorporate in their purposes and operations the best methods, organization and practices of existing lending institutions both in this country and in Europe," according to the Bank Board.

The first savings and loan chartered by the Bank Board was First Federal of Miami, which received its charter on July 31, 1933. That S&L was renamed AmeriFirst Federal Savings & Loan Association in 1979.

The final major legislative development in the 1930s was the establishment of the Federal Savings and Loan Insurance Corp. in June 1934 to insure savings and loan deposits in the same way the FDIC insured bank deposits. The FSLIC originally insured deposits up to $5,000 at member S&Ls.

A more subtle change during the Depression was the name change of *building* and loans to *savings* and loans. The building and loan was still the prevalent name for these institutions in the 1920s, but the best indication that things changed during the 1930s is the fact that the U.S. *Building* and Loan League changed its name to the U.S. *Savings* and Loan League in 1939.

S&Ls Go to War

The savings and loan business changed dramatically during World War II. On the deposit side, consumers were finding few consumer goods to spend money on, so instead they saved their money, resulting in large increases in deposits at savings institutions. But on the lending side, the mortgage lending business was stopped by the lack of new home construction.

The Bank Board also underwent wartime changes. Under the War Powers Act of 1941, the Bank Board was reduced to one member for the duration

Continued on Next Page

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Continued from Previous Page

of the war. It was returned to its present three-member board in 1947.

There was one significant piece of legislation passed during the war. The Servicemen's Readjustment Act, more commonly known as the G.I. Bill of Rights, was passed in June 1944.

It established a program under which lenders could make mortgage loans to veterans with guarantees from the Veteran's Administration. And with the surplus of funds taken in by savings institutions during World War II, lenders were more than ready to help fund the nation's postwar housing boom.

Little regulatory change occurred from the postwar years until the 1960s. The thrift industry began to shrink in terms of number of institutions, but total assets in the industry skyrocketed. The number of S&Ls fell from 7,521 in 1940 to 6,320 in 1960, but total assets jumped from $5.7 billion to $71.5 billion during that time. Savings banks fell slightly from 542 in 1940 to 515 in 1960, but assets nearly quadrupled from $11.9 billion to $40.6 billion.

The next big change in the industry came in 1966, when the Interest Rate Adjustment Act was passed by Congress. The new law put federal interest rate controls on savings and loans and savings banks for the first time.

The Federal Reserve's tight monetary policy in 1966 created high competition for funds between commercial banks and thrifts, with banks generally winning the battle. Banks were offering certificates of deposit at higher interest rates than thrifts could afford to pay and in smaller denominations to bring in a broader range of savers. The Interest Rate Adjustment Act was intended to return some of the competitive advantage for savings to thrifts.

Interest Rate Ceilings

The bill gave the Bank Board, the Fed, and the FDIC authority to establish interest rate ceilings for institutions under their jurisdictions. And within two hours after the bill was signed by President Lyndon Johnson on Sept. 21, the three agencies announced a joint plan for interest rate restrictions.

The ceiling on savings accounts at thrift institutions was set at 4¾%, with some exceptions, while the passbook rate at banks was set at 4%. Commercial banks were also limited to paying 5% on time deposits of less than $100,000.

Bank Board Chairman John E. Horne said that day that the new regulations would "give the savings and loan a better competitive opportunity as far as new deposits are concerned" and would "prevent a further shrinking of funds available to housing and provide more relief to the home builders."

From the late 1960s until the two major deregulation bills of the 1980s, Congress passed several pieces of legislation that helped shape the modern thrift industry. The Housing and Urban Development Act of 1968 included a relatively minor provision that helped modernize S&Ls — it allowed savings and loans to use the term "deposits" instead of shares and "interest rate" instead of "dividend rate."

"It comes so naturally to the lips," said Rep. Richard T. Hanna, D-Calif. "Why shouldn't the terminology be updated?"

The HUD Act also broadened the lending authority of federal savings and loans and gave them the authority to raise capital through the issue of notes, bonds, and debentures.

Another provision of that legislation divided the Federal National Mortgage Association (which had been created in 1938) into two entities — a privately owned corporation retaining the Fannie Mae name and a corporation within HUD called the Government National Mortgage Association.

The Emergency Home Finance Act

Opening Date of 25 Largest Thrifts

		Year Operations Began	Deposits ($ Bil.) 12/31/85
1.	Home Savings of America, Irwindale, Calif.	1889	$20.6
2.	Great Western Savings, FS&LA, Beverly Hills	1888	$17.1
3.	American Savings & Loan Assn., Stockton, Calif.	1922	$16.6
4.	California Federal S&L Assn., Los Angeles	1925	$14.2
5.	Meritor Savings Bank, Philadelphia	1816	$12.8
6.	Glendale Federal Savings & Loan Assn., Calif.	1934	$11.7
7.	Goldome FSB, Buffalo, N.Y.	1846	$9.9
8.	First Nationwide Bank FSB, San Francisco	1885	$9.7
9.	Great American First Savings Bank, San Diego	1885	$8.4
10.	World Savings, FS&LA, Oakland, Calif.	1912	$7.8
11.	Home Fed. Savings & Loan Assn. of San Diego	1934	$7.7
12.	City Federal Savings Bank, Elizabeth, N.J.	1887	$7.2
13.	CrossLand Savings FSB, Brooklyn, N.Y.	1860	$7.1
14.	Dime Savings Bank of New York FSB	1859	$6.7
15.	Anchor Savings Bank FSB, Northport, N.Y.	1868	$6.4
16.	Gibraltar Savings, Beverly Hills	1886	$6.3
17.	Imperial Savings Assn., San Diego	1926	$5.9
18.	Sears Savings Bank, Glendale, Calif.	1946	$5.1
19.	Bowery Savings Bank, N.Y.	1834	$5.1
20.	Empire of America FSB, Buffalo, N.Y.	1854	$5.0
21.	First Federal of Michigan, Detroit	1933	$4.9
22.	Coast Savings & Loan Assn., Los Angeles	1935	$4.9
23.	Talman Home Federal S&L Assn., Chicago	1922	$4.8
24.	Columbia Savings & Loan Assn., Beverly Hills	1958	$4.7
25.	Dollar-Dry Dock Savings Bank, Bronx, N.Y.	1890	$4.4

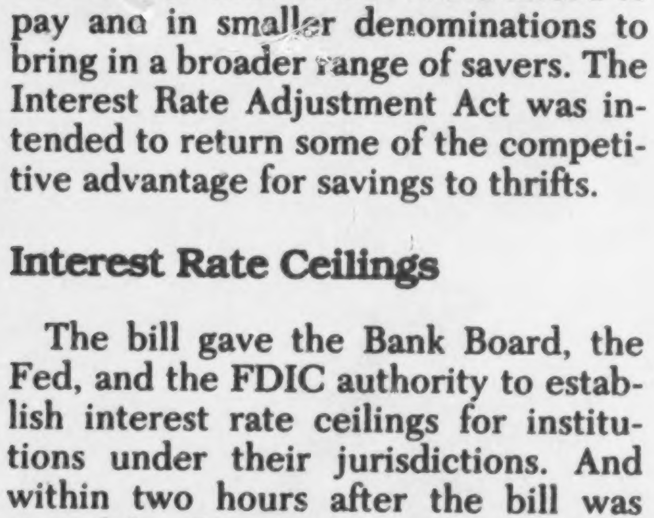

Photo: Provident Institution for Savings

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"The spread of building and loans started slowly."

of 1970 created a third mortgage corporation called the Federal Home Loan Mortgage Corp., which was organized to provide a secondary market for Federal Housing Administration, Veterans Administration, and conventional mortgages.

NOWs and Stock Conversions

State-chartered savings banks in Massachusetts and New Hampshire were given permission in 1972 to offer negotiable orders of withdrawal — or NOW — accounts. This was a product that worked basically as an interest-bearing checking account and became a hot issue during the 1970s as only a few states authorized institutions to offer NOWs. It wasn't until the Depository Institutions Deregulation and Monetary Control Act of 1980 that every institution nationwide was allowed to offer NOWs.

Photo: Republic Pictures

Donna Reed hands movie husband Jimmy Stewart their personal savings, hoping to stop a run on his building and loan, in "It's a Wonderful Life."

The 1970s also saw the spread of stock conversions by S&Ls. Some savings and loans had been organized as stock associations, but Congress gave limited authority to the Bank Board in 1974 to allow mutual S&Ls to convert for a period of two years. The Bank Board could allow 1% of the industry, or 43 institutions, to convert during that time.

Only six associations received Bank Board approval to convert in 1975, but Congress extended the Bank Board's authority to approve conversions in 1976 and the number of stock institutions has nearly doubled since the early 1970s. There were 616 stock S&Ls in 1975, 789 in 1980, and 1,129 in 1985 (including stock savings banks), according to figures compiled by Keefe, Bruyette & Woods Inc., a securities firm specializing in the banking industry.

After several attempts since the 1930s to establish a system of federal savings banks, the Bank Board was finally authorized to charter savings banks through the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The Garn-St Germain Depository Institutions Act of 1982 greatly increased the number of federal savings banks by making it easier for savings and loans to convert to savings banks.

One Industry

The Depository Institutions Deregulation Act of 1980 and the Garn-St Germain act of 1982 basically completed the deregulation of the thrift industry to the point where savings and loans and savings banks merged into one industry.

The *American Banker* noted the change in its midyear ranking of the top thrifts in 1983 when it combined the ranking of savings and loans and savings banks into a ranking of one single thrift industry.

"The new listing was devised to reflect the dramatic changes that have occurred in the thrift industry since enactment of the Depository Institutions Act of 1982, which permitted changes in charter from a savings and loan association to a federal savings bank," it said. "Passage of the '82 act and other recent regulatory changes have resulted in the elimination of most of the differences between savings banks and savings and loans. For that reason, the *American Banker* believes that a consolidated thrift listing more accurately reflects the industry today."

The early 1980s were hard times for the thrift industry, as high interest rates resulted in heavy losses for much of the industry and put many institutions in danger of failing.

And just when the industry was beginning to recover and turn profitable in 1985, thrift crises in Ohio and Maryland caused the collapse of private deposit insurance and threatened the public's confidence in the nation's thrift institutions.

But the industry survived, recording profits totaling $3.8 billion in 1985, according to the Bank Board. And despite the large number of problem institutions, regulators and legislators have assured the survival of thrifts by pledging their support for maintaining a thrift industry separate from other financial services organizations.

"Savings institutions have been here during tough times and good times," said Gerald J. Levy, 1985-86 chairman of the U.S. League of Savings Institutions. "And we always will be." ■

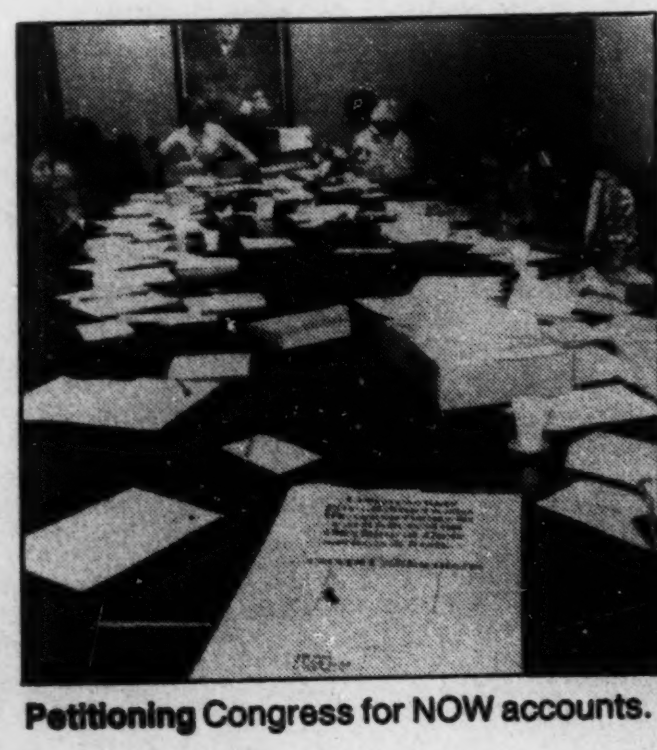
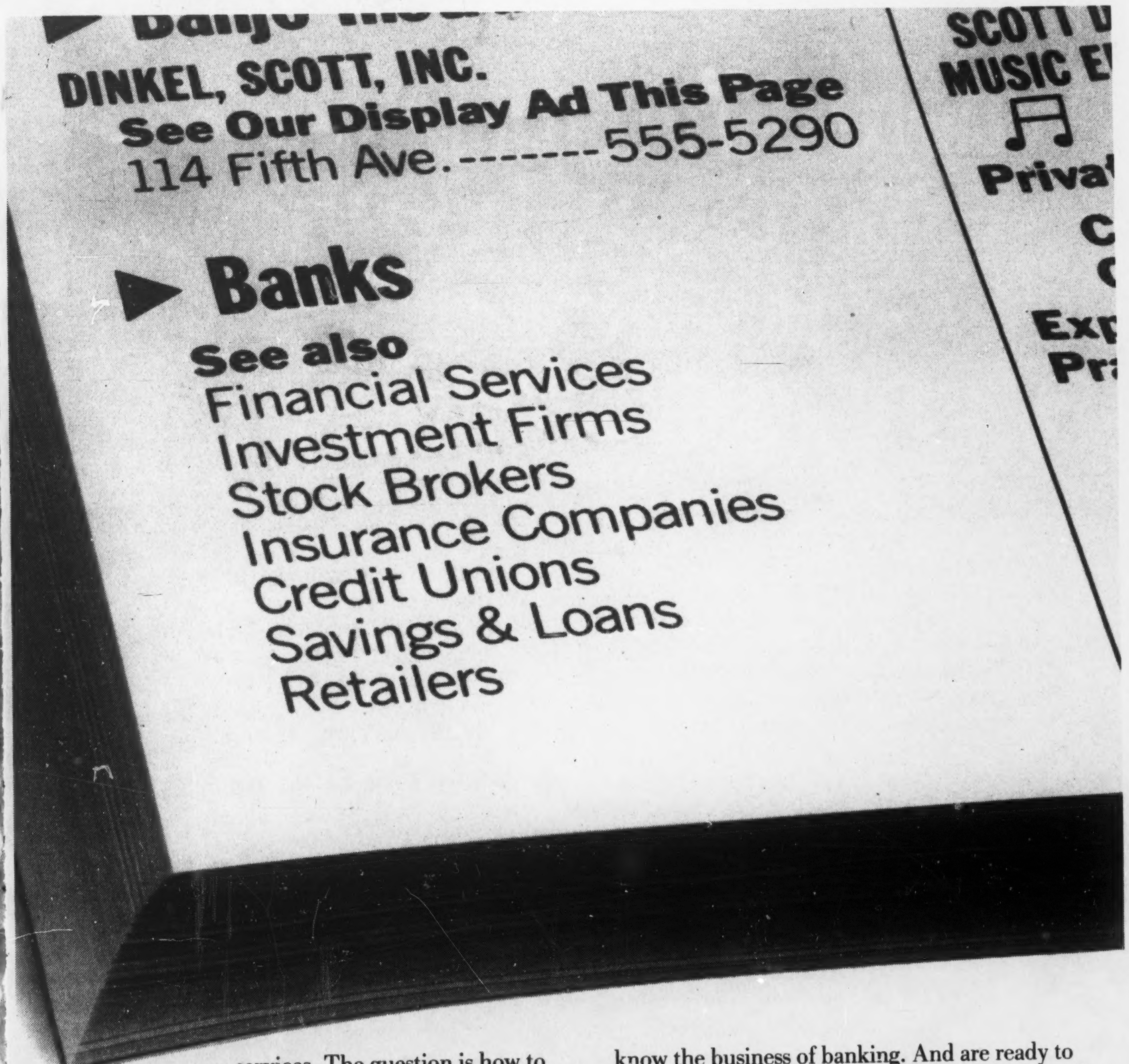


Photo: Home Federal Savings and Loan Association

Petitioning Congress for NOW accounts.



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Some of the Oldest Commercial Banks in the United States

	CURRENT NAME OF BANK	ORIGINAL NAME OF BANK	Deposits ($ Mil.) 12/31/85	Deposit Rank 12/31/85	Year Operations Began
1	First Pennsylvania Bank NA, Philadelphia	Bank of North America	3,869.9	67	1782
2	First National Bank, Boston	The Massachusetts Bank	14,461.3	15	1784
	Bank of New York	The President, Directors & Co. of the Bank of New York	12,330.9	17	1784
3	Fleet National Bank, Providence, R.I.	Providence Bank	3,944.3	65	1791
4	Connecticut National Bank, Hartford	The Hartford Bank	5,536.7	41	1792
5	Chase Manhattan Bank NA, New York	Bank of the Manhattan Co.	58,774.9	3	1799
6	Bank of New England-Old Colony, Newport, R.I.	Newport National Bank	91.9	2,504	1803
	Norstar Bank of Upstate New York, Albany	State Bank of Albany	2,439.9	113	1803
	Philadelphia National Bank	Philadelphia Bank	5,744.5	39	1803
7	New Jersey National Bank, Trenton	Trenton Banking Co.	1,538.2	161	1804
8	First National Bank of Maryland, Baltimore	Mechanics Bank	3,113.7	85	1806
9	National Bank of Washington, D.C.	National Bank of Washington	1,189.6	221	1809
10	Hamilton Bank, Lancaster, Pa.	Farmers Bank of Lancaster	2,155.2	126	1810
11	National State Bank, Elizabeth, N.J.	State Bank at Elizabeth	1,328.1	204	1812
	Citibank NA, New York	City Bank	94,386.0	1	1812
12	Bank One Dayton NA	Dayton Manufacturing Co.	1,263.0	216	1814
	BayBank Valley Trust Co., Springfield, Mass.	Springfield Bank	637.6	372	1814
	Commonwealth National Bank, Harrisburg, Pa.	Harrisburg Bank	1,083.2	241	1814
13	Bank of Baltimore	Savings Bank of Baltimore	1,545.9	178	1818
14	Vermont National Bank, Brattleboro	N.A.	432.5	504	1821
15	Chemical Bank, New York	New York Chemical Manufacturing Co.	35,961.3	6	1824
16	Key Bank NA, Albany, N.Y.	Commercial Bank of Albany	1,589.8	174	1825
17	Key Bank of Southern Maine, Portland	Canal National Bank	322.6	654	1826
18	Bank of New England NA, Boston	Merchants Bank	4,773.4	54	1831
	First National Bank of Commerce, New Orleans	New Orleans Canal & Banking Co.	1,629.1	171	1831
19	Indiana National Bank, Indianapolis	State Bank of Indiana	2,862.2	93	1834
	Norstar Bank of Hudson Valley NA, Newburgh, N.Y.	Highland National Bank of Newburgh	559.0	418	1834
	Old National Bank, Evansville	Branch Bank of the State of Indiana	593.5	396	1834
	South Carolina National Bank, Columbia	South Carolina National Bank of Charleston	3,050.2	86	1834
	Terre Haute First National Bank, Ind.	Terre Haute Branch of the State Bank of Indiana	480.6	463	1834
20	Northern Central Bank, Williamsport, Pa.	West Branch Bank	536.7	431	1835
21	Mellon Bank (East) NA, Philadelphia	Girard Trust Bank	3,000.4	89	1836
	Shawmut Bank of Boston NA	Shawmut Bank of Boston NA	2,661.1	101	1636
	South Shore Bank, Quincy, Mass.	South Shore National Bank	696.9	350	1836
22	First Fidelity Bank NA, Burlington Twp., N.J.	Mechanics Bank of Burlington	1,483.5	189	1839
	American Fletcher National Bank & Trust Co., Indianapolis	S.A. Fletcher & Co.	2,884.8	92	1839
	Marine Bank NA, Milwaukee, Wis.	Marine Fire & Insurance Co.	1,115.0	232	1839
23	First National Bank, Elkhart, Ind.	First National Bank, Elkhart, Ind.	607.5	389	1842
24	National City Bank, Cleveland	City Bank of Cleveland	3,231.4	82	1845
25	Boatmen's National Bank, St. Louis	Boatmen's Savings Institution	2,199.9	123	1847
	M&I Marshall & Ilsley Bank, Milwaukee, Wis.	Marshall & Ilsley	1,528.0	182	1847

Compiled by Kenneth J. Hicks

Some of the Oldest Commercial Banks by State

	CURRENT NAME OF BANK	ORIGINAL NAME OF BANK	Deposit Rank 12/31/85	Year Operations Began
Alabama	First Alabama Bank, Montgomery, Ala.	First National Bank of Montgomery	381	1871
Alaska	B.M. Behrends Bank, Juneau	B.M. Behrends Bank	4,306	1891
Arizona	First Interstate Bank of Arizona NA, Phoenix	Bank of Arizona	47	1877
Arkansas	Worthen Bank & Trust Co. NA, Little Rock, Ark	W.B. Worthen Co., Bankers	298	1902†
California	Bank of California NA, San Francisco	Bank of California	99	1864
Colorado	First Interstate Bank of Denver NA	Clark, Grueber & Co., Bank & Mint	149	1860
Connecticut	Connecticut National Bank, Hartford	The Hartford Bank	45	1792
Delaware	Bank of Delaware, Wilmington	Security Trust & Safe Deposit Co.	238	1885
District of Columbia	National Bank of Washington, D.C.	National Bank of Washington	221	1809
Florida	Barnett Bank Jacksonville NA, Fla.	Barnett First National Bank	252	1877
Georgia	Savannah Bank & Trust Co., Ga.	Savannah Bank & Trust Co.	491	1869
Hawaii	First Hawaiian Bank, Honolulu	Bishop & Co.	111	1858
Idaho	Idaho First National Bank, Boise	First National Bank of Idaho	116	1867
Illinois	Marine Bank of Springfield, Ill.	Springfield Marine & Fire Insurance Co.	428	1851
Indiana	Indiana National Bank, Indianapolis	State Bank of Indiana	96	1834
	Terre Haute First National Bank, Ind.	Terre Haute Branch of the State Bank of Indiana	450	1834
Iowa	Norwest Bank Des Moines NA, Iowa	Iowa National Bank of Des Moines	226	1868
Kansas	Bank IV Witchita NA, Kan.	Fourth National Bank & Trust Co.	228	1887
Kentucky	Liberty National Bank & Trust Co., Louisville, Ky.	German Insurance Co.	195	1854
Louisiana	First National Bank of Commerce, New Orleans	New Orleans Canal & Banking Co.	167	1831
Maine	Key Bank of Southern Maine, Portland	Canal National Bank	671	1826
Maryland	Bank of Baltimore	Savings Bank of Baltimore	186	1818
Massachusetts	First National Bank, Boston	The Massachusetts Bank	15	1784
Michigan	Comerica Bank-Detroit	Detroit Bank Corp.	35	1849
Mississippi	Bank of Mississippi, Tupelo	Raymond Trice & Co.	404	1876
Missouri	Boatmen's National Bank, St. Louis	Boatmen's Savings Institution	274	1847
Nebraska	First National Bank of Omaha, Neb.	First National Bank of Omaha	393	1863
New Hampshire	Amoskeag National Bank & Trust Co., Manchester	Amoskeag National Bank	1,256	1848
New Jersey	National State Bank, Elizabeth, N.J.	State Bank at Elizabeth	204	1812
New Mexico	Sunwest Bank of Raton, N.M.	First National Bank of Raton	3,374	1892
New York	Bank of New York	The President, Directors & Co. of the Bank of New York	17	1784
North Carolina	Branch Banking & Trust Co., Wilson, N.C.	Branch & Hadley	117	1872
North Dakota	Bank of Hamilton	N.A.		1886
Ohio	Bank One Dayton NA	Dayton Manufacturing Co.	216	1814
Oklahoma	First National Bank, Guthrie, Okla.	N.A.	N.A.	1889
	First American Bank, Minco	N.A.	N.A.	1889
Oregon	First Interstate Bank of Oregon, Portland	First National Bank of Portland	58	1865
Pennsylvania	First Pennsylvania Bank NA, Philadelphia	Bank of North America	67	1782
Puerto Rico	Banco Popular de Puerto Rico, San Juan	Banco de Prestamos y Econias	84	1893
Rhode Island	Fleet National Bank, Providence, R.I.	Providence Bank	65	1791
South Carolina	South Carolina National Bank, Columbia	South Carolina National Bank of Charleston	86	1834
South Dakota	Security Bank & Trust Co., Webster	First State Bank of Pierpont	N.A.	1879
Tennessee	First Tennessee Bank NA, Memphis	First National Bank of Memphis	65	1864
Texas	Frost National Bank of San Antonio, Tex.	Frost National Bank of San Antonio	165	1868
Utah	First Interstate Bank of Utah NA, Salt Lake City	Walker Brothers	293	1859
Vermont	Vermont National Bank, Brattleboro	N.A.	504	1821
Virginia	Dominion Bank NA, Roanoke, Va.	First National Bank of Roanoke	141	1882
Washington	Peoples National Bank of Washington, Seattle	Peoples Savings Bank	141	1889
	Rainier National Bank, Seattle	National Bank of Commerce	36	1889
Wisconsin	Marine Bank NA, Milwaukee, Wis	Marine Fire & Insurance Co.	232	1839
Wyoming	First Interstate Bank of Laramie NA	Wyoming National Bank of Laramie	1,961	1873

Based on information from American Banker surveys and state banking departments. Data for Minnesota, Montana, Nevada, and West Virginia was not available. † — Year chartered. Founded in 1877. N.A. — Not available.

Some of the Oldest Foreign Commercial Banks

		Deposits ($ Bil.) 12/31/85	Deposit Rank 12/31/85	Year Operations Began
1	Monte dei Paschi di Siena, Italy	33.7	60	1472
2	Banco di Napoli, Naples, Italy	26.5	73	1539
3	Istituto Bancario San Paolo di Turino, Italy	33.5	61	1563
4	Banco di Santo Spirito, Rome, Italy	11.7	140	1605
5	Coutts & Co., London, United Kingdom	2.3	606	1692
6	Bank of Scotland, Edinburgh, United Kingdom	10.0	158	1695
7	Caja de Ahorros y Monte de Piedad de Madrid, Spain	5.9	256	1702
8	Banque de Neuflize, Schlumberger, Mallet, France	2.1	637	1713
9	Royal Bank of Scotland Plc., Edinburgh, United Kingdom	17.0	100	1727
10	Baring Brothers & Co. Ltd., London, United Kingdom	1.5	807	1762
11	Lloyds Bank Plc., London, United Kingdom	56.5	32	1765
12	Banco Pastor, Coruna, Spain	1.9	684	1776
13	Trinkaus & Burkhardt KGaA, Dusseldorf, Germany	1.6	770	1785
14	Landessparkasse zu Oldenburg, Germany	2.1	643	1786
15	Sal. Oppenheim jr. & Cie., Cologne, Germany	4.3	356	1789
16	Kleinwort, Benson, Lonsdale Plc., London, United Kingdom	6.1	248	1793
17	M.M. Warburg-Brinckman, Wirtz & Co., Hamburg, Germany	1.3	883	1798
18	J. Henry Schroder Wagg & Co., Ltd., London, United Kingdom	1.8	728	1804
19	Westpac Banking Corp., Sydney, Australia	23.3	83	1817
20	Caisse d' Epargne de Paris, France	6.2	246	1818
	Nutsspaarbank te's Gravenhage, The Hague, Netherlands	1.1	950	1818
	Sparkasses der Stadt Berlin West, Berlin, Germany	5.9	257	1818
21	Caisse d' Epargne de Bordeaux, France	1.1	922	1819
	Erste Oesterrichische Spar-Casse, Vienna, Austria	6.3	239	1819
22	Forsta Sparbanken, Stockholm, Sweden	2.7	528	1820
23	Cassa di Risparimo de Padova e Rovigo, Padua, Italy	3.2	473	1822
	Franfurter Sparkasse von 1822, Frankfurt, Germany	3.0	490	1822
	Societe Generale de Banque, Brussels, Belgium	32.9	63	1822
24	Cassa di Risparimo delle Province Lombarde, Milan, Italy	30.2	69	1823
	Stadtsparkasse Hannover, Hanover, Germany	2.5	572	1823
25	Stadtsparkasse Munchen, Munich, Germany	3.5	433	1824

List includes banks under current charter and is based on information from American Banker surveys.

Continued from Previous Page

ing to restimulate economic growth with low interest rates.

Interest-Sensitive Funds

Shifts of interest-sensitive funds between major markets has been an important feature of international financial markets ever since, especially since the de facto shift to floating exchange rates in 1971 (the fiction of fixed rates was kept up a while longer, until 1973).

Other developments helped stimulate international financial markets and the greater participation in them by U.S. banks. The Interest Equalization Tax of 1963 shut many foreign borrowers out of the New York market and so helped stimulate the issue of Eurobonds on a regular basis.

In 1965, further measures were taken with the aim of "protecting" the U.S. balance of payments and the dollar. They included the Voluntary Credit Restraint Program and the Office for Foreign Direct Investment. Among other things, those "voluntary" programs required U.S. corporations to finance new direct investment outside the United States by borrowing abroad.

Meanwhile, Federal Reserve regulations at that time did not permit banks to pay interest on deposits of less than 30 days and limited the returns they could offer on time deposits of more than 30 days.

In effect, a set of controls and regulations seriously distorted domestic capital and money markets in dollars. Their net effect, therefore, was to export a large part of that business to offshore centers.

Although the controls on exports of capital from the United States were lifted in 1974, and although Federal Reserve regulations have been amended to loosen constraints on the domestic dollar markets, the offshore money and capital markets in Eurodollars have continued to expand under their own momentum, almost unchecked.

What, then, are the techniques that U.S. bankers brought into the international markets? In the Eurodollar bond markets they adapted the pricing, underwriting, and distribution techniques that had been evolving in the United States for more than a century.

The Eurobond primary and secondary markets, despite many improvements, remain less efficient than domestic bond markets in New York, Tokyo, and London, especially in their failure to provide newly issued bonds on equal terms to all investors. But that is being remedied now that investment in Eurobonds has become more dominated than in the past by large institutional investors.

In the international syndicated medium-term bank loan market, or the Eurocredits market, the approach was derived partly from the old technique of bankers' acceptances issued by banks in Britain, and partly from the loan participations that have been a feature of the fragmented American banking market for more than a century.

Note issuance and other back-up facilities, which have become part of the "securitization" of debt in the international markets since 1983, likewise trace their origins partly to U.S. domestic practices. So does the more recent evolution of Eurocommercial paper.

Even the restructuring of debt is handled in international markets on lines that have been commonplace in the United States for a very long time. Because the fragmentation of American banking lends itself to the syndication of medium-term bank facilities, restructuring those facilities is usually negotiated by banks that led the lending in the first place.

American banks are now playing their part in the global integration of financial markets. If that integration succeeds, as its proponents hope, then the distinction of banks by their nationality of ownership and their geographic location may come to lose even more meaning. ■

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